Supreme Court, U.S.
FILED

(1)

No. 95-551 OCT 3 - 1995

OFFICE OF THE CLERK

IN THE
Supreme Court of the United States
OCTOBER TERM, 1995

SEARS ROEBUCK & CO.,
Petitioner,

v.

U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

PETITION FOR WRIT OF CERTIORARI

Of Counsel:

JAMES VANR. SPRINGER
DICKSTEIN, SHAPIRO
& MORIN, L.L.P.

WILLIAM L. ANDROLIA
KODA & ANDROLIA
1880 Century Park East
Los Angeles, California 90067
(310) 277-1391

GARY M. HOFFMAN
(Counsel of Record)
CHARLES W. SABER
GABRIELLE S. ROTH
DICKSTEIN, SHAPIRO
& MORIN, L.L.P.
2101 L Street, N.W.
Washington, D.C. 20037
(202) 785-9700
Attorneys for Petitioner
Sears Roebuck & Co.

October 1995

WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

QUESTION PRESENTED

Whether a consensual vacatur of a judgment, pursuant to a settlement reached while the judgment is on appeal, invariably frees the losing party to relitigate claims of intellectual property protection that were rejected after full and fair litigation, and thereby forecloses any consideration in the subsequent case whether equitable or other considerations warrant preclusion of such relitigation.

PARTIES BELOW

In addition to the parties listed in the caption, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") was also a defendant in the District Court and a party in the Court of Appeals. Izumi was not, however, named as a party to the trade dress infringement claim that is the subject of this Petition. Izumi has filed a separate petition for a writ of certiorari (No. 95-518) raising questions regarding its counterclaim, to which the present Petitioner is not a party. This Petition is nonetheless being served upon Izumi.

STATEMENT PURSUANT TO RULE 29.1

The parents, subsidiaries and affiliates of Petitioner Sears Roebuck & Co., other than wholly owned subsidiaries, are as follows:

168886 Canada Inc.; 169281 Canada Inc.; 169282 Canada Inc.; 173470 Canada Inc.; 2840251 Canada Limited; American Pioneer Title Insurance Co.; Bay City Mall Associates; Boulevard Consumer Credit Services Inc.; Boulevard Insurance Company (Barbados) Limited; Boulevard Printing Service Inc.; Centennial Valley Business Park Property Owners' Association; Gateway Property Owners' Association; Homart Management Co.—Arizona; Homart Management Co.—Florida; Homart Management Co.—Hawaii; Homart Management Co.—Kentucky; HO Retail Properties I; HO Retail Properties II; Karelian Timber Associates, Ltd.; Kingsway Imports Ltd.; MaxServ, Inc.; NorthPoint Mall Limited Partnership; Pembroke Lakes Mall Ltd.; PMI Mortgage Insurance Co.; PMI Reinsurance Co.; PMI Securities Co.; Quetor Realty Limited; Sears (1978) Limited; Sears Acceptance Company Inc.; Sears Canada Inc.; Sears Holdings Limited; Sears Limited; Sears, Roebuck de Mexico, S.A. de C.V. (Mexico); Sears, Roebuck Pty. Limited (Australia); Sears World Trade Comercial Limitada; S.L.H. Transport Inc.; ST Holdings, Inc.; St. Laurent Shopping Centre Limited; Truswal Systems Corporation; Truswal Systems of Canada, Ltd.; Vantor Realty Limited; and XYZ Consultoria de Negocios, Ltd.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	i
PARTIES BELOW	ii
STATEMENT PURSUANT TO RULE 29.1	ii
TABLE OF AUTHORITIES	iv
OPINIONS BELOW	1
JURISDICTION	2
STATEMENT	2
The Pre-Vacatur Proceedings On Philips' Successive Trade Dress Claims	3
The Vacatur Of The Prior Judgment And Its Fall-out Below	5
REASONS FOR GRANTING THE PETITION	6
I. THE COURT OF APPEALS' REFUSAL EVEN TO CONSIDER GIVING PRECLUSIVE EFFECT TO A JUDGMENT IMPROPERLY VACATED PURSUANT TO A SETTLEMENT RAISES AN IMPORTANT QUESTION THAT SHOULD BE SETTLED BY THIS COURT, PARTICULARLY IN THE CONTEXT OF INTELLECTUAL PROPERTY RIGHTS	6
II. THE DECISION BELOW CONFLICTS WITH THE NINTH CIRCUIT'S WILLINGNESS TO REVISIT A SETTLEMENT VACATUR IN SUBSEQUENT LITIGATION TO CONSIDER WHETHER THERE SHOULD NONETHELESS BE COLLATERAL ESTOPPEL	11
CONCLUSION	13

TABLE OF AUTHORITIES

Cases: Page

Alexander v. Perrill, 872 F. Supp. 722 (D. Ariz. 1995) 8
Bates v. Union Oil Co., 944 F.2d 647 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 1761 (1992) 11, 12
Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971) 10, 11
Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) 10
Cardinal Chem. Co. v. Morton Int'l, Inc., 113 S. Ct. 1967 (1993) 9
Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) 9
Dyncorp v. O'Leary, No. 94-1493, 1995 U.S. App. LEXIS 449 (Fed. Cir. Jan. 4, 1995) 8
Herr v. Tandy Corp., No. 94-56235, 1995 U.S. App. LEXIS 15555 (9th Cir. June 20, 1995) 8
Izumi Seimitsu Kogyo Kabushiki Kaisha v. U.S. Philips Corp., 114 S. Ct. 425 (1993) (per curiam) ..... *passim*
Local Union No. 34, IBEW v. Bazzano, No. 94-2772, 1994 U.S. App. LEXIS 36039 (7th Cir. Dec. 20, 1994) 8
Montana v. United States, 440 U.S. 147 (1979) 9
Motta v. District Director of INS, 61 F.3d 117 (1st Cir. 1995) 8
Nahrebeski v. Cincinnati Milacron Mktg. Co., 41 F.3d 1221 (8th Cir. 1994) 8
U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership, 115 S. Ct. 386 (1994) ..... *passim*
U.S. Philips Corp. v. Windmere Corp., 971 F.2d 728 (Fed. Cir. 1992) 5
Whitney Benefits, Inc. v. United States, No. 94-5129, 1995 U.S. App. LEXIS 11902 (Fed. Cir. May 11, 1995) 8
Zeneca Ltd. v. Novopharm Ltd., Civ. Action No. Y-95-163 (D. Md.) 10

TABLE OF AUTHORITIES—Continued

Statutes & Rules: Page

28 U.S.C. § 1254(1) 2
28 U.S.C. § 1292(b) 6
28 U.S.C. § 1338 4
Fed. R. Civ. P. 60(b) 9

IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

No. 95-———

SEARS ROEBUCK & CO.,

Petitioner,

v.

U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,

Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

PETITION FOR WRIT OF CERTIORARI

Sears Roebuck & Co. ("Sears") petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit insofar as it affirmed the District Court's order vacating its prior grant of summary judgment against Philips'[1] trade dress infringement claim.

OPINIONS BELOW

The opinion of the Court of Appeals (App. A, 1a-18a) is reported at 55 F.3d 592. The opinion of the District Court for the Northern District of Illinois reinstating

---

[1] The three Respondents are affiliated companies whose individual roles are immaterial for present purposes. We refer to them collectively as "Philips".

Philips' trade dress claim (App. B, 19a-28a) is unreported.[2]

JURISDICTION

The judgment of the Court of Appeals was entered on May 10, 1995. A timely petition for rehearing and suggestion for rehearing in banc was denied on July 6, 1995. (App. C, 29a-30a). The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT

In *U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership*, 115 S. Ct. 386, 393 (1994), this Court held that, absent exceptional circumstances, a settlement reached while a district court judgment is on appeal should not result in vacatur of the district court judgment. It thereby rejected the practice previously followed by the Court of Appeals for the Federal Circuit, which was to enter such vacaturs routinely.

This Petition involves a district court judgment vacated by the Federal Circuit under its pre-*U.S. Bancorp* practice. Two Terms ago, this Court granted certiorari to review the propriety of this very same vacatur, but dismissed the writ as improvidently granted because of an issue as to the standing of the petitioner there in view of the fact that it was not a named party to the district court judgment. *Izumi Seimitsu Kogyo Kabushiki Kaisha v. U.S. Philips Corp.*, 114 S. Ct. 425 (1993) (per curiam) ("*Izumi v. Philips*"). Justice Stevens (joined by Justice Blackmun) would have reached the vacatur issue and reversed the Federal Circuit, *see id.* at 428, and that dissent was relied on in the unanimous *U.S. Bancorp* opinion, 115 S. Ct. at 392.

The present Petitioner Sears (which was not a party in any of the prior proceedings) has been sued by Philips

---

[2] Only pages 20a-27a of Appendix B pertain to the order that is the subject of this Petition.

on the same trade dress protection theory that was rejected in the judgment vacated by the Federal Circuit. The courts below have ruled, however, that the vacatur order automatically and categorically protects Philips from any collateral estoppel defense because it finally obliterated the previous judgment. In seeking review of that ruling, this Petition raises the question whether there is any sound reason to foreclose Sears from challenging Philips' relitigation of intellectual property claims that were rejected in the fully litigated district court judgment that would have been restored in *Izumi v. Philips* if that case had not been aborted.[3]

The Pre-Vacatur Proceedings On Philips' Successive Trade Dress Claims

In October 1984, Philips sued Windmere Corporation, a distributor of rotary electric shavers manufactured by Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"), in the Southern District of Florida alleging, among other claims, that Windmere was guilty of trade dress infringement. Philips' trade dress claim alleged that the design of the rotary shavers manufactured by Izumi was unlawfully copied from that of Philips' Norelco rotary shavers. Although Izumi was not sued on this trade dress claim, it paid for Windmere's defense pursuant to an indemnity agreement and appeared at the trial. The Florida case also involved patent claims against Windmere and Izumi, as well as an antitrust counterclaim by Windmere against Philips, which this Petition does not address.

The Florida court entered judgment rejecting Philips' trade dress claim in May 1990. By special interrogatories, the jury found that Philips had failed to establish that its trade dress was non-functional, that Philips' trade dress

---

[3] The question whether this vacatur order could be challenged in the present subsequent case was discussed at the oral argument in *Izumi v. Philips* but was not touched on in the per curiam opinion dismissing the writ.

had not achieved secondary meaning, that the trade dress of the rotary shavers manufactured by Izumi was not likely to be confused with Philips' trade dress, and hence that Philips did not possess any trade dress rights against Izumi rotary shavers. Additionally, Windmere was awarded almost $90 million in trebled damages, plus attorneys' fees, interest and costs, on its antitrust counterclaim.[4]

In the meantime, Philips had filed the present action in the Northern District of Illinois, raising similar claims with respect to Izumi rotary shavers sold by Sears. This action includes a trade dress claim substantially identical to that asserted against Windmere in Florida. Here, as there, Izumi has paid for the defense of the trade dress claim against its distributor under an indemnity arrangement.

Because Philips' claim to trade dress protection had been rejected after full and fair litigation in the Windmere case in Florida, the Illinois District Court entered summary judgment in October 1990, dismissing the trade dress claim against Sears on collateral estoppel grounds. (App. D, 37a-39a).[5]

---

[4] The trade dress and antitrust issues had been retried in 1990 because (1) the Florida judge granted Philips a new trial on the trade dress claim (after an initial verdict in Windmere's favor) to consider evidence which previously had not been disclosed in discovery, and (2) the Federal Circuit reversed the Florida court's initial grant of a directed verdict against Windmere's antitrust counterclaim. At the initial 1986 trial, Philips obtained a judgment of $6,500 for non-willful patent infringement, from which Izumi and Windmere did not bother to appeal.

[5] The Illinois case also involves patent claims against Sears and Izumi and an antitrust claim by Izumi against Philips, none of which is involved in this Petition. As previously noted, Izumi has filed a petition relating to that counterclaim. The jurisdiction of the District Court over the trade dress claim was based upon 28 U.S.C. § 1338.

The Vacatur Of The Prior Judgment And Its Fallout Below

In September 1991, following unsuccessful post-trial motions in Florida, Philips filed a notice of appeal to the Federal Circuit from both the trade dress judgment and the antitrust judgment which had been entered in favor of Windmere. Thereafter, Philips and Windmere agreed upon a settlement under which Philips paid Windmere $57 million and Windmere joined Philips in a motion requesting the Federal Circuit to vacate the judgment denying trade dress relief as well as the judgment awarding damages to Windmere.[6]

Izumi attempted to intervene to oppose the joint vacatur motion filed by Philips and Windmere, but the Federal Circuit held that Izumi had no standing because it was not a named party to the appealed claims and its status as indemnitor on the trade dress claims was not sufficient. The Federal Circuit then granted the joint motion and ordered that the judgments be vacated without further inquiry because all the named parties were in favor of vacatur. *U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728, 731 (Fed. Cir. 1992). As previously noted, this Court granted certiorari to consider the propriety of this vacatur in *Izumi v. Philips,* but dismissed the writ on the ground that there was an issue as to standing which Izumi's certiorari petition had not adequately raised.

Philips immediately brought the Federal Circuit's vacatur of the Florida trade dress judgment to the Illinois District Court's attention and sought reinstatement of its trade dress claim against Sears. The District Court agreed that the vacatur had deprived the Florida judgment of any preclusive effect, and therefore vacated its summary judgment, freeing Philips to proceed with the same trade dress claim that had been rejected in Florida. (App. B, 20a-27a). The District Court, however, certified its reinstate-

[6] The settlement was not, however, conditioned on actual grant of the vacatur motion.

ment order for appeal pursuant to 28 U.S.C. § 1292(b), (App. E, 40a-42a), and the Federal Circuit accepted the appeal of this and another issue not involved in the present Petition. (App. F, 43a-46a). The Federal Circuit noted at that time that "there are conflicting circuit views about these issues." (*Id.* at 45a).

After a stay pending the aborted *Izumi v. Philips* proceedings in this Court and a further interval during which this Court decided *U.S. Bancorp*, the Federal Circuit affirmed the District Court's decision that the trade dress judgment resulting from the Florida trial could have no collateral estoppel effect. While assuming that the vacatur of that judgment had been improper in the light of *U.S. Bancorp*, the Court of Appeals held that the vacatur was a *fait accompli*, that vacatur has the automatic and invariable effect of wiping out any possibility of collateral estoppel, and that there are no circumstances where the possibility of preclusive effect from a vacated judgment could be considered in a subsequent case. (App. A, 11a-13a).

REASONS FOR GRANTING THE PETITION

I. THE COURT OF APPEALS' REFUSAL EVEN TO CONSIDER GIVING PRECLUSIVE EFFECT TO A JUDGMENT IMPROPERLY VACATED PURSUANT TO A SETTLEMENT RAISES AN IMPORTANT QUESTION THAT SHOULD BE SETTLED BY THIS COURT, PARTICULARLY IN THE CONTEXT OF INTELLECTUAL PROPERTY RIGHTS.

U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership involved the question whether a consensual vacatur should be entered by an appellate court in the first instance. It did not deal with the more practically important question whether the propriety of such a vacatur and the effect it should be given can be considered at the only time when it would typically make any difference—in subsequent litigation where the preclusive impact of the

earlier judgment is in issue. This Petition raises that question.

U.S. Bancorp's holding that vacatur by reason of settlement is improper absent "exceptional circumstances" rests on the policy that " '[j]udicial precedents are presumptively correct and valuable to the legal community as a whole. They are not merely the property of private litigants . . . .' " 115 S. Ct. at 392 (quoting, indeed, from Justice Stevens' dissent in *Izumi v. Philips*, 114 S. Ct. at 428). *U.S. Bancorp* concludes with the general principle that a party who "has voluntarily forfeited his legal remedy by the ordinary processes of appeal or certiorari" has thereby surrendered any claim to be relieved of the effects of the judgment against him through vacatur. *Id.*

If the policy expressed in *U.S. Bancorp* is to have the intended practical significance, it must be enforceable in subsequent litigation where, as here, the question of the effect to be given to the prior judgment becomes an issue. *U.S. Bancorp* was the unusual case where—as a result of this Court's specific directive—there was an adversarial presentation of the vacatur issue in the first instance. The situation here is the more typical one where the financial beneficiary of the settlement has agreed to vacatur because it has no interest in preserving the judgment as such, and the vacating court has heard no argument in opposition.[7] Thus, the subsequent lawsuit will ordinarily, as here, provide the only real opportunity for meaningful litigation of the issue whether or not the settled judgment

---

[7] The recipient of the settlement would argue the point only in the rare instance where some ongoing dispute on the same subject matter would be foreseeable. Indeed, it is not difficult to imagine situations where the recipient of the settlement would have an affirmative interest in denying its competitors any benefit from its own victory. A party who has made his peace with the holder of a patent or other intellectual property claims would often be delighted to have his competitors hampered by infringement litigation.

should have preclusive effect. If, as the Court of Appeals held, an unopposed entry of a vacatur in the first lawsuit categorically forecloses that opportunity, then the policies espoused in *U.S. Bancorp* will be at risk of being ignored by default.[8]

This is not merely an issue as to the effect of pre-*U.S. Bancorp* vacaturs. Notwithstanding its disapproval of routine grants of settlement vacaturs, *U.S. Bancorp* left room for them in "exceptional circumstances." 115 S. Ct. at 393. As the opinion below noted, Philips has contended in this very case that there were such "extraordinary circumstances" relating to the trade dress judgment it lost in Florida. (App. A, 11a). Settling parties in other cases are already making similar arguments, and not without success.[9] Thus, the need to allow meaningful challenges to the effect of vacatur orders will continue indefinitely.[10]

---

[8] In view of the dismissal of the writ in *Izumi v. Philips*, the Federal Circuit's unwillingness to allow intervention by a nonparty to challenge a vacatur motion stands. In any event, there are likely to be relatively few situations where a party ultimately affected in subsequent litigation would have known of the vacatur motion in the prior case and been in a position to argue against it.

[9] Several courts have already found justifications for settlement vacaturs notwithstanding *U.S. Bancorp*, based on consensual presentations by the settling parties. *See Motta v. District Director of INS*, 61 F.3d 117 (1st Cir. 1995); *Local Union No. 34, IBEW v. Bazzano*, No. 94-2772, 1994 U.S. App. LEXIS 36039 (7th Cir. Dec. 20, 1994); *Alexander v. Perrill*, 872 F. Supp. 722 (D. Ariz. 1995). In other instances, courts of appeals have referred the question to the original tribunal to consider the settling parties' views as to whether its judgment should be vacated notwithstanding the general rule of *U.S. Bancorp*. *See, e.g., Herr v. Tandy Corp.*, No. 94-56235, 1995 U.S. App. LEXIS 15555 (9th Cir. June 20, 1995); *Whitney Benefits, Inc. v. United States*, No. 94-5129, 1995 U.S. App. LEXIS 11902 (Fed. Cir. May 11, 1995); *Dyncorp v. O'Leary*, No. 94-1493, 1995 U.S. App. LEXIS 449 (Fed. Cir. Jan. 4, 1995); *Nahrebeski v. Cincinnati Milacron Mktg. Co.*, 41 F.3d 1221 (8th Cir. 1994).

[10] The opinion below missed the point in its simplistic reasoning that the issue was closed when the prior case ended because a "final judgment is not voided if the precedent upon which it was

The fundamental purpose of modern collateral estoppel, which "preclude[s] parties from contesting matters that they have had a full and fair opportunity to litigate," is to "protect[] their adversaries from the expense and vexation attending multiple lawsuits, conserve[] judicial resources, and foster[] reliance on judicial action by minimizing the possibility of inconsistent decisions." *Montana v. United States*, 440 U.S. 147, 153-54 (1979). This Court has recently emphasized the particular importance of collateral estoppel in intellectual property cases like the present one, noting "the wasteful consequences of relitigating the validity of a patent after it has once been held invalid in a fair trial" and additionally "the danger that the opportunity to relitigate might, as a practical matter, grant monopoly privileges to the holders of invalid patents." *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 113 S. Ct. 1967, 1977 (1993).

The present case exemplifies the anticompetitive tendency —plainly intended by Philips in obtaining vacatur—of allowing relitigation of rejected claims of intellectual property protection. The vacated Florida judgment determined that Philips' trade dress is legally functional and therefore unprotectable. Just as competitors are free to copy inventions as to which there is no valid patent claim,[11] so

---

based is later modified or overruled." (App. A, 11a). Petitioner is not contending in the present case that the vacatur in the Florida case was void or should be reversed; that relief, if appropriate, can be awarded in an independent proceeding under Fed. R. Civ. P. 60(b), an option which is also being pursued. Petitioner makes the very different contention that the Florida judgment should be given collateral estoppel effect in this subsequent case, *notwithstanding* the fact that the vacatur stands in the prior Florida case, in order to carry out the policy adopted in *U.S. Bancorp.* Such relief will be based on the irreversible historical fact that there was a full and fair trial leading to the Florida judgment, not on the technical status of that judgment in the former case.

[11] *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237-38 (1964).

also unpatented designs that are legally functional fall in the public domain, and any and all competitors may use them. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152-53 (1989). The effect of the Florida judgment, unless reversed (as it was not) should, therefore, be to eliminate any trade dress impediment to free competition from Izumi rotary shavers, whether sold by Windmere (the party sued there) or by Sears (the party sued here on exactly the same theory). The decision below, however, has precisely the opposite effect, and therefore is inconsistent both with the general policy of modern rules of issue preclusion and with its particular application to intellectual property claims.[12]

Here, as in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971), a rigid interpretation of traditional legal doctrine would impede competition by allowing repetition of intellectual property claims that have been fully and fairly determined to be unfounded. There, this Court held that the traditional requirement of "mutuality of estoppel" must give way. *Id.* at 350. Here, the question is whether the Federal Circuit's notion about the inexorable "finality" of its consensual vacatur order permits Philips to enhance its

---

[12] As a result of the Federal Circuit's now-discredited past practice of routinely vacating judgments where the parties settled, it is likely that many holders of intellectual property previously found invalid remain free to repeat their efforts to prevent competitive use or to extract undeserved royalty payments. One example that has come to our attention is *Zeneca Ltd. v. Novopharm Ltd.*, Civ. Action No. Y-95-163 (D. Md.), where the plaintiff is suing for a second time on a pharmaceutical patent which earlier litigation found unenforceable due to inequitable conduct. The earlier litigation ended with a settlement on appeal, in which $21 million was paid on condition that the alleged infringer join in a motion to vacate the judgment of unenforceability. There, as here, the Federal Circuit granted a routine vacatur, leaving the unsuccessful patent holder free to use the courts to impede competition in a pharmaceutical market involving hundreds of millions of dollars of annual sales.

entrenched economic power by a similar repetitive intellectual property claim. Here, as there, this Court should grant certiorari to establish that the solution is well within "the lower courts' ability and facility in dealing with questions of when it is appropriate and fair to impose an estoppel against a party who has already litigated an issue once and lost." *Id.* at 349.

II. THE DECISION BELOW CONFLICTS WITH THE NINTH CIRCUIT'S WILLINGNESS TO REVISIT A SETTLEMENT VACATUR IN SUBSEQUENT LITIGATION TO CONSIDER WHETHER THERE SHOULD NONETHELESS BE COLLATERAL ESTOPPEL.

The holding below, that any final vacatur order resulting from a settlement on appeal categorically forecloses any possible collateral estoppel, conflicts with the Ninth Circuit's decision in *Bates v. Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 1761 (1992). In *Bates*, a judgment for plaintiffs in the prior case had been vacated by the district court pursuant to their settlement on appeal. Another group of plaintiffs brought a similar claim, and contended that the prior judgment should have collateral estoppel effect in the subsequent case notwithstanding the vacatur. The Ninth Circuit agreed that "the [prior] judgment did not lose preclusive effect simply because it was vacated." *Id.* at 650. In view of the fact that the first district court had failed to weigh the equitable factors pertinent to determination whether the prior judgment should have continuing effect, those factors "were properly considered by the district court when, in this [subsequent] case, it confronted the question of the preclusive effect of the vacated judgment." *Id.*

The Ninth Circuit thus agrees with Petitioner's position here, that the subsequent court may consider the appropriateness of collateral estoppel notwithstanding vacatur by the prior court, at least where (as in both

cases) there was no such consideration at the time of the vacatur. Indeed, *Bates* went on to uphold the second court's decision that under all the circumstances, and notwithstanding the earlier vacatur, "relitigation of the liability and punitive damage issues in this case 'after a full and fair jury trial' of those same issues in [the first case] would be a waste of judicial resources." *Id.*

The balance of the equities in the present case is equally clear. At Izumi's expense, Windmere defeated Philips' trade dress claims seeking to keep Izumi-manufactured rotary shavers out of the market. The Florida jury found that Philips had failed to prove that its trade dress was non-functional and thus that Philips had no protectable property rights. Unless successfully challenged on appeal—as it was not by Philips' choice—this full and fair litigation of the issues gave Izumi and its other distributors, including Sears, every right to certainty that Izumi shavers could be sold in competition with Philips without legal interference. It would be both unfair and wasteful to require Sears (and its indemnitor Izumi) to repeat the expense and other burdens of making the same defenses all over again simply because Philips had the wherewithal to buy the Florida judgment back from Windmere for $57 million. Similar inequity and waste will recur unless this Court grants certiorari to establish that the appropriateness of issue preclusion may be considered in subsequent litigation.

The history of the Philips-Izumi-Windmere-Sears rotary shaver litigation makes the equities here even more poignant. But for the obstacles to Izumi's effort to intervene in order to challenge the Federal Circuit's vacatur order, the present problem would never have occurred. This Court would have reversed the vacatur order in *Izumi v. Philips* (as required by the principle soon announced in *U.S. Bancorp*), and the trade dress issue would long since have been resolved in favor of Sears-brand Izumi rotary shavers as well as those sold by Windmere. It is par-

ticularly inequitable for the Federal Circuit now to hold that Sears and Izumi are categorically foreclosed by the finality of a vacatur order that the Federal Circuit categorically prohibited them from challenging.

CONCLUSION

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

GARY M. HOFFMAN
(Counsel of Record)
CHARLES W. SABER
GABRIELLE S. ROTH
DICKSTEIN, SHAPIRO
& MORIN, L.L.P.
2101 L Street, N.W.
Washington, D.C. 20037
(202) 785-9700
Attorneys for Petitioner
Sears Roebuck & Co.

Of Counsel:

JAMES VANR. SPRINGER
DICKSTEIN, SHAPIRO
& MORIN, L.L.P.

WILLIAM L. ANDROLIA
KODA & ANDROLIA
1880 Century Park East
Los Angeles, California 90067
(310) 277-1391

October 1995

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

93-1188

U.S. PHILIPS CORPORATION,
Plaintiff/Counterdefendant-Appellee,

and

NORTH AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Counterdefendants-Appellees,

v.

SEARS ROEBUCK & CO.,
Defendant/Counterclaimant-Appellant,

and

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendant/Counterplaintiff/Appellant.

DECIDED: May 10, 1995

Before NEWMAN, *Circuit Judge,* FRIEDMAN, *Senior Circuit Judge,* and MAYER, *Circuit Judge.*

Opinion for the court filed by Judge NEWMAN. Dissenting opinion as to Part I filed by Senior Judge FRIEDMAN.

NEWMAN, *Circuit Judge.*

We answer two questions certified for interlocutory appeal by the United States District Court for the Northern District of Illinois, in the course of litigation involving U.S. Philips Corporation, North American Philips Corporation, and N.V. Philips Gloeilampenfabrieken (together "Philips"); Sears, Roebuck & Company; and Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi").[1] These questions are directed to various issues of estoppel, and also concern the vacatur by the Federal Circuit of a district court decision in related litigation. We affirm the rulings here certified.

BACKGROUND

The related litigation started in 1984 in the United States District Court for the Southern District of Florida. The parties were Philips, the Windmere Corporation, and Izumi. Philips complained of patent infringement and unfair competition, and Izumi and Windmere raised defenses and counterclaims of patent misuse and antitrust violations. The Florida case was tried in 1986 as to all issues, Windmere and Izumi successfully arguing that it was incorrect and inefficient to separate the patent aspects from the antitrust and misuse counterclaims. The decision was appealed to the Federal Circuit. In accordance with this court's decision, *U.S. Philips Corp. v. Windmere Corp.*, 861 F.2d 695, 8 USPQ2d 1885 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1068 (1989), and the Florida district court's order, the antitrust counterclaims and the unfair competition count were retried in Florida in 1990.

---

[1] *U.S. Philips Corp. v. Sears Roebuck & Co.*, No. 85-C-5366 (N.D. Ill. December 1, 1987 (opinion), December 22, 1987 (recons. denied), May 19, 1989 (recons. denied with opinion), May 17, 1990 (recons. denied), October 13, 1992 (summary judgment entered on October 5, 1990 vacated and recons. denied with opinion), and November 6, 1992 (order certifying questions for immediate appeal)).

Philips and Windmere, but not Izumi, were parties to the retrial, which was decided in favor of Windmere. Philips appealed to the Federal Circuit. While the appeal was pending, Philips and Windmere reached a settlement. On their joint motion the Federal Circuit dismissed the appeal and vacated the Florida district court's judgment. *U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728, 23 USPQ2d 1709 (Fed. Cir. 1992). The Federal Circuit denied Izumi's petition to intervene, on the ground that Izumi did not have standing to protest the vacatur of a decision to which Izumi was not a party. *Id.* at 730-31, 23 USPQ2d at 1710-11. The Supreme Court dismissed Izumi's petition for certiorari, *Izumi Seimitsu Kogyo Kabushiki Kaisha v. U.S. Philips Corp.*, 114 S. Ct. 425 (1993), holding that Izumi did not have standing to seek review of the question of vacatur since Izumi was not a party.

Meanwhile, in June 1985 Philips had filed suit against Sears, Roebuck & Co. and Izumi in the United States District Court for the Northern District of Illinois, asserting substantially the same patent infringement and unfair competition claims that were asserted in the suit Philips filed in 1984 in Florida against Windmere and Izumi. The patent was the same in the Illinois and the Florida cases, plus a design patent in the Illinois action. The accused product was the same Izumi-manufactured rotary shaver, which was sold by Windmere under the "Ronson" trademark and by Sears, Roebuck under the "Sears" trademark. In the Illinois action Izumi pled several antitrust counterclaims on the same grounds as were pled by Windmere in Florida; that is, that Philips violated the antitrust laws in its competition with Windmere, and that the litigation against Windmere and Izumi in Florida, and against Izumi in Japan, was sham.

The Florida case was tried in 1986 as to all issues. In 1987 the Illinois district court dismissed Izumi's antitrust counterclaims, holding that these counterclaims were

mature at the time of the Florida litigation to which Izumi was a party, were litigated therein, and were compulsory to Izumi in the Florida action. After the Federal Ciricuit in 1988 required retrial of the antitrust counterclaims in Florida, the Illinois district court instructed Izumi, who had requested reconsideration of the dismissal, to include its antitrust counterclaims in the retrial. The Illinois court stated that Izumi "should direct its request to the Florida District Court where the retrial of the original cause is scheduled." *U.S. Philips Corp. v. Sears Roebuck & Co.*, No. 85 C 5366, slip op. at 3 (N.D. Ill. May 19, 1989). Izumi did not direct a request to the Florida district court, despite this instruction. Thus Izumi was not a party to the 1990 retrial of the antitrust counterclaims in Florida, although Izumi reportedly continued as indemnitor to Windmere, *Philips v. Windmere*, 971 F.2d at 730, 23 USPQ2d at 1710, and Izumi's president testified concerning the unfair competition and antitrust claims. Declaration of William Androlla, counsel to Izumi, of record in *U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728, 23 USPQ2d 1709 (Fed. Cir. 1992).

I

THE ANTITRUST COUNTERCLAIMS

Izumi now seeks to try, in the Illinois action, the same antitrust counterclaims that were tried in the Florida action, stating that it has the right to do so. The Illinois court did not agree, and entered an interlocutory order pursuant to 28 U.S.C. § 1292(b). The first question is as follows:

> 1. [W]hether Izumi is barred from pursuing such antitrust counterclaims on the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al. v. Windmere Corp. et al.* which could not be asserted in this action, and whether Izumi has standing to raise these particular antitrust counterclaims.

A

The antitrust counterclaims pled by Izumi in the Illinois suit include the same antitrust issues that were pled and fully litigated in the Florida action to which Izumi and Windmere were parties until the retrial. In both the Illinois and the Florida actions the principal antitrust claims were (1) predatory pricing by Philips in competition with Windmere, (2) Philips' purchase of the Schick trademark in 1981, whereby it was not available to Windmere, and (3) sham patent litigation by Philips in Florida and in Japan.

It is not controverted that all of these antitrust counterclaims were "ripe" throughout the period of the Florida action, for they were the same claims being litigated in that action. The Illinois court at least twice directed Izumi to participate in the Florida antitrust litigation. Izumi refrained from doing so, despite the reiterated directive from the Illinois court when the antitrust issues were to be retried in Florida. Thus the Illinois court held that these counterclaims were compulsory to Izumi in Florida.

Izumi argues that its antitrust counterclaims were not "compulsory" in terms of Fed. R. Civ. P. 13(a),[2] and therefore that it has the absolute right to choose when and where to litigate them. In this case, however, the

---

[2] Rule 13(a) provides in part:

> A pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction.

The purpose of Rule 13(a) is "to prevent multiplicity of actions and to achieve resolution in a single lawsuit of all disputes arising out of common matters". *Warshawsky & Co. v. Arcata Nat'l Corp.*, 552 F.2d 1257, 1261 (7th Cir. 1977); 6 Charles A. Wright et al., *Federal Practice and Procedure* § 1409, at 46 (2d ed. 1990).

issue is not simply whether Izumi's antitrust counterclaims were "compulsory" in the technical definition of this term, but whether they were required to be brought by Izumi on the particular facts of this case, wherein they were already being fully litigated in a suit to which Izumi was present as a party, then as a witness, and as indemnitor. It is not irrelevant that the Illinois district court instructed Izumi to participate in the litigation, and then the relitigation, of these counterclaims. Under these circumstances, we think that Izumi's interest in these counterclaims was indeed required to be raised by Izumi in the Florida action in which the counterclaims were already being litigated. Izumi does not have the absolute right to relitigate the same claims in Illinois, having voluntarily removed itself from the Florida litigation of these claims, and having declined to comply with the Illinois court's admonition to seek to reenter that litigation. This is particularly compelling because Izumi's antitrust counterclaims are based primarily on Philips' behavior in competition with Windmere, the precise subject of the Florida action.

In the Florida litigation Izumi and Windmere had successfully opposed Philips' attempt to sever the antitrust counterclaims from the patent issue. Izumi and Windmere, represented by the same counsel, argued to the Florida court that:

> [Severance of patent infringement] would cause a waste of judicial time and impose an undue burden on Defendants in having to duplicate proof and witnesses at those trials, and require the impaneling of two juries. Defendants' Counterclaims, both as to misuse and antitrust violations to a significant degree encompass Plaintiffs' acquisition and use of the patent in suit and false assertion of alleged common law trademark rights as part of Plaintiffs' efforts to restrain legitimate competition and monopolize the relevant market. . . . By necessity Defendants' wit-

> nesses and proof on these issues are pertinent to all claims and would be duplicitous in both trials.

Defendants' Memorandum in Opposition to Plaintiff's Motion to Sever Counterclaims, at 6-7, *U.S. Philips Corp. v. Windmere Corp.*, 680 F. Supp. 361 (S.D. Fla. 1987). Windmere and Izumi prevailed on the motion, and the patent and antitrust issues were fully tried in the same trial.

To support its position that it is entitled to bring its counterclaims in a second forum, Izumi places weight on *Southern Construction Co. v. Pickard*, 371 U.S. 57, 60-61 (1962), wherein the Court held that a compulsory counterclaim could be litigated in either of two pending actions that under the Miller Act were required to be brought in different jurisdictions. *Southern Construction* indeed permitted a choice of either forum; but it did not permit a choice of both forums. *Southern Construction* weighs against Izumi's attempt to relitigate in Illinois the claims that were fully litigated in the Florida action to which Izumi was a party, witness, and indemnitor.

Izumi also cites *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 671 (1944), wherein the Court held that an antitrust defense could be asserted in a later action, if not raised by a related defendant in the first infringement action. However, *Mercoid* did not hold that the same antitrust claim could be fully litigated a second time, if it were raised and litigated by a related party in the first action.

Izumi does not dispute that its antitrust counterclaims are substantially the same as those that were litigated in Florida. On this basis, and in view of the Illinois district court's admonitions to Izumi, we discern no error in the district court's holding that Izumi could not, in these circumstances, retry the same antitrust counterclaims in Illinois.

Izumi and Windmere successfully obtained the litigation of the antitrust counterclaims together with the patent

claim in Florida, by arguing that severance would be "a waste of judicial time" and an "undue burden on Defendants." *See supra.* This argument, and the ensuing full litigation of the antitrust counterclaims in Florida, create a form of "judicial estoppel" against Izumi's position that it now has the absolute right to relitigate the same claims against the same party. Judicial estoppel is an equitable principle that holds a party to a position on which it prevailed, as against later litigation arising from the same events. *Eagle Foundation, Inc. v. Dole,* 813 F.2d 798, 810 (7th Cir. 1987).[3] *See Davis v. Wakelee,* 156 U.S. 680, 689 (1895) ("Where a party assumes a certain position in a legal proceeding, and succeeds in maintaining that position, he may not thereafter, simply because his interests have changed, assume a contrary position.")

The doctrine of judicial estoppel is directed to the preservation of the integrity of judicial proceedings by protecting against litigants who " 'play fast and loose with the courts.' " *In re Cassidy,* 892 F.2d 637, 641 (7th Cir.), *cert. denied,* 498 U.S. 812 (1990) (quoting *Scarano v. Central R. Co.,* 203 F.2d 510, 513 (3d Cir. 1953)). *See Levinson v. United States,* 969 F.2d 260, 264 (7th Cir.), *cert. denied,* 113 S. Ct. 505 (1992). The Seventh Circuit has held that judicial estoppel may lie when "[e]ven though [the party] did not prevail on the appeal as a whole, he did prevail on the subsidiary question of what issues were to be decided by the court." *Cassidy,* 892 F.2d at 641.

---

[3] In applying judicial estoppel we look to the law of the Seventh Circuit, for the issue is not unique to patent cases. *Allen Organ Co. v. Kimball Int'l, Inc.,* 839 F.2d 1556, 5 USPQ2d 1769 (Fed. Cir.) (in matters not unique to patent law the Federal Circuit applies the perceived law of the circuit in which the case was tried), *cert. denied,* 488 U.S. 850 (1988). *See Water Technologies Corp. v. Calco, Ltd.,* 850 F.2d 660, 665-66 & nn. 3, 4, 7 USPQ2d 1097, 1101 & nn. 3, 4 (Fed. Cir. 1988) (applying Seventh Circuit law of judicial estoppel).

We conclude that the criteria of judicial estoppel, as defined by the Seventh Circuit, were met. Izumi took the position that the antitrust counterclaims were compulsory in the Florida litigation, or at least that they should not be severed because the witnesses and proof would be duplicated. The Florida court adopted this position, and the claims were fully litigated in Florida. Izumi's present position that it had the right not to participate in the retrial of the issues that it insisted should be tried together, and can now require a duplicate trial of the identical issues, leaves us with the firm impression that Izumi has "played fast and loose with the courts." Although the Illinois court did not mention this ground, we think that judicial estoppel provides a sound rationale for affirmance of the district court's decision. *See Cassidy*, 892 F.2d at 641 (Because the doctrine of judicial estoppel "is intended to protect the courts rather than the litigants," it is proper for the appellate court to raise the estoppel "in an appropriate case.") Appellate review of the interlocutory order is not confined to the precise questions certified by the district court. "[A]ll questions material to the order are properly before the court of appeals." *Nuclear Engineering Co. v. Scott*, 660 F.2d 241, 246 (7th Cir. 1981), *cert. denied*, 455 U.S. 993 (1982). *See United States v. Connolly*, 716 F.2d 882, 885 (Fed. Cir. 1983) ("[T]he nature and scope of our review are not limited to the certified question, but . . . we are free to consider all questions material to the trial court's order sustaining its jurisdiction."), *cert. denied*, 465 U.S. 1065 (1984).

B

Izumi also argues that it raised additional antitrust issues in Illinois, beyond those litigated in Florida. These additional issues are described as relating to the charge that Philips' litigation was "sham." Windmere and Izumi had alleged in Florida that Philips' patent infringement suit was sham, and also that Philips had improperly sued Izumi in Japan.

The charge that Philips' patent infringement suit in Florida was sham can not be deemed to have substance, for Philips prevailed in Florida on that issue. "A winning lawsuit is by definition a reasonable effort at petitioning for redress and therefore not a sham." *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 113 S. Ct. 1920, 1928 n.5 (1993). Further, the place to challenge litigation as sham is in the asserted sham litigation, to which Izumi was a party.

Izumi also presses the claim that Philips filed sham patent litigation in Japan in 1978. No substantive support for this assertion is before us, and no argument is offered that this is a different issue from that raised in the Florida action. We discern no error in the district court's holding that all of the antitrust counterclaims were barred.

II

STANDING

The district court also certified the sub-issue of whether Izumi has "standing" to raise these antitrust counterclaims. The district court made no decision on this issue. In view of our affirmance of the district court's action, and the silence of the district court on this issue, we need not and do not reach this question.

III

UNFAIR COMPETITION

Judgment in the Florida litigation was entered in favor of Windmere and against Philips on the unfair competition count. After the Federal Circuit vacated the Florida judgment, *Philips v. Windmere*, 971 F.2d 728, 23 USPQ 2d 1709, the Illinois district court reinstated Philips' unfair competition count against Sears, ruling that the vacated Florida judgment did not have collateral estoppel effect. This led to the second certified question:

2. [W]hether under the law of the 7th Circuit, plaintiff N.A. Philips can be barred under collateral estoppel from again retrying the issue of trade dress infringement in view of the findings of the jury and the judgment of the Court in *U.S. Philips Company et al. v. Windmere Corp. et al.*, where the final judgment of the Court was vacated predicated upon a settlement reached between Philips and Windmere.

A

Sears argues that this court's vacatur of the Florida judgment was improper and should be reconsidered. However, the question of vacatur was finally decided, and is not subject to further review or collateral attack. Although Sears suggests that this vacatur was contrary to the Supreme Court's decision in *U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership,* 115 S. Ct. 386, 393 (November 8, 1994) (holding that vacatur by an appellate court, absent extraordinary circumstances, is not justified by mootness due to settlement), that holding does not impair the binding effect of this earlier decision. A final judgment is not voided if the precedent upon which it was based is later modified or overruled. *Federated Department Stores, Inc. v. Moitie,* 452 U.S. 394, 398 (1981). Thus it is unnecessary to decide whether, as Philips suggests, there were indeed extraordinary circumstances that justified vacatur in this case.

B

Sears also argues that even if the Florida judgment were properly vacated, the Seventh Circuit would give the vacated judgment collateral estoppel effect. Collateral estoppel bars the relitigation of factual issues that were fully and fairly litigated and were the basis of final judgment in an action to which the person against whom the estoppel is sought was a party; there need not have been privity

with the party now invoking the estoppel. *Blonder-Tongue Labs., Inc. v. University of Illinois Found.*, 402 U.S. 313, 332-33, 169 USPQ 513, 521 (1971); *Commissioner v. Sunnen*, 333 U.S. 591, 599-601 (1948).

The district court did not agree, and indeed we do not think that Sears has accurately described the precedent of the Seventh Circuit. In *Pontarelli Limousine, Inc. v. City of Chicago*, 929 F.2d 339, 340-41 (7th Cir. 1991) the Seventh Circuit held that a state court judgment that had been vacated pursuant to a settlement agreement did not preclude relitigating the issue in federal court, and added that this ruling embraced vacated federal as well as state judgments:

> [The question on appeal] is whether the district judge erred in refusing to give the judgment in *Chicago Courtesy* collateral estoppel effect in this case . . . . He did not err. A vacated judgment has no collateral estoppel or res judicata effect under Illinois law, *Mattchett v. Rose*, 36 Ill. App. 3d 638, 649, 344 N.E.2d 770, 779 (1976) (or any other law, *No East-West Highway Committee, Inc. v. Chandler*, 767 F.2d 21, 24 (1st Cir. 1985)).

Pontarelli, 929 F.2d at 340. In *No East-West Highway* the court stated that a vacated judgment "has no preclusive force either as a matter of collateral or direct estoppel or as a matter of the law of the case." 767 F.2d at 24.

The Seventh Circuit in *Pontarelli* distinguished its earlier decision in *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988) (refusing to vacate a judgment), and stated that if the court in *Memorial Hospital* had vacated the judgment "it could not have been used in future litigation." *Pontarelli*, 929 F.2d at 340. Thus we discern no error in the district court's rul-

ing that the vacated Florida judgment has no collateral estoppel effect.[4] That judgment is affirmed.

AFFIRMED

---

[4] Philips also argued that the unfair competition issues raised against Sears are matters of Iilinois law, and that the issues and burdens with respect to trade dress law are different in Illinois and in Florida. We express no view on the substantive correctness of this position, but take note that collateral estoppel can not lie when the issues or applicable law differ. *Sunnen*, 333 U.S. at 599-601.

FRIEDMAN, *Senior Circuit Judge,* dissenting in part.

I agree with and join part III of the court's opinion, which affirms the district court's reinstatement of N.A. Philips' unfair competition claim, and part II, which declines to reach the question whether Izumi has standing to raise the antitrust issues. I disagree, however, with the court's affirmance of the district court's dismissal of Izumi's antitrust counterclaim.

1. Rule 13 of the Federal Rules of Civil Procedure sets forth the standards governing counterclaims. Rule 13(a), captioned "Compulsory Counterclaims," provides that a claim "that arises out of the transaction or occurrence that is the subject matter" of the plaintiff's claim "shall" be filed in the litigation as a counterclaim. Rule 13(b), captioned "Permissive Counterclaims," permits the assertion in a counterclaim of "any claims against an opposing party not arising out of a transaction or occurrence that is the subject matter of the opposing party's claim." Failure to assert a compulsory counterclaim at the proper time bars the assertion of its claims in a subsequent suit. *Martino v. McDonald's System, Inc.,* 598 F.2d 1079, 1083 (7th Cir.), *cert. denied,* 444 U.S. 966 (1979); *Employers Ins. of Wausau v. United States,* 764 F.2d 1572, 1576 (Fed. Cir. 1985). The corollary is that if the counterclaim is permissive, failure to assert its claims in the prior proceeding does not bar their assertion in the subsequent one. *Rudell v. Comprehensive Accounting Corp.,* 802 F.2d 926, 928 (7th Cir. 1986) *cert. denied,* 480 U.S. 907 (1987).

Congress thus has provided, as the touchstone for determining whether a counterclaim is compulsory or permissive, whether the claim it asserts "arises out" of the transaction or occurrence that is the subject matter of the claim in the complaint. Unless it so arises, the failure to file a counterclaim in the first suit does not bar the litigation of the claim in the second suit.

2. The sole ground upon which the district court dismissed the counterclaim was that it was a compulsory one, which Izumi was required to assert in the Florida case, and that Izumi's failure to do so barred it from asserting the counterclaim issues in the Illinois case. That was the question the district court certified for interlocutory review.

This court, however, does not answer that question. Instead, it affirms the district court on the alternative ground that the doctrine of judicial estoppel bars Izumi from now litigating those claims in the Illinois case because (1) the antitrust claims are the same ones that Windmere fully litigated in the Florida case, in which Izumi initially was a party, (2) Izumi could have litigated those claims there, and (3) the Illinois court twice told Izumi to do so. The court stresses that before the first trial in the Florida court, Izumi and Windmere jointly opposed severance of the antitrust and patent claims on the ground that severance "would cause a waste of judicial time and impose an undue burden on Defendants. . . ."

The practical effect of the judicial-estoppel principle the court applies in affirming the district court's dismissal of Izumi's counterclaim is to treat the counterclaims as a compulsory one. The dismissal is upheld solely because Izumi should have litigated its counterclaim in the Florida case. Such dismissal is the consequence that follows the determination that a counterclaim not filed in the earlier case was compulsory.

The court reaches that result, however, without making any determination whether the counterclaims arose out of the same transaction or occurrence that was the subject of Philips' patent infringement suit in the Florida court against Windmere and Izumi. For all practical purposes, this means that the counterclaim is treated as compulsory without making the inquiry that Rule 13 prescribes as the basis for determining that question.

The court cites no case that directly supports its holding, which would allow a district court to dismiss a counterclaim because of failure to litigate it in a prior proceeding without first determining whether the counterclaim is permissive or compulsory. If Izumi's counterclaim is permissive—as I think it is—Rule 13 teaches that the claimant may litigate the counterclaim despite its failure to assert or litigate the claim in a prior case in which it could have done so.

The court's reliance on Izumi's prior assertion that trying the antitrust counterclaim separately "would cause a waste of judicial time and impose an undue burden on Defendants in having to duplicate proof and witnesses" ignores the fact that the Seventh Circuit has treated as permissive a counterclaim that "as a linguistic matter . . . might arguably have been said to come out of the same transaction" as a claim litigated in an earlier suit, *Colonial Penn Life Ins. v. Hallmark Ins.*, 31 F.3d 445, 448 (7th Cir. 1994), even though the trial of the counterclaim in the second case would likely result in duplication of witnesses, testimony, and other evidence. *See also Burlington Northern Railroad Co. v. Strong*, 907 F.2d 707 (7th Cir. 1990); *Gilldorn Sav. Ass'n v. Commerce Sav. Ass'n*, 804 F.2d 390 (7th Cir. 1986).

3. But even if a district court has the authority to dismiss a counterclaim in the circumstances of this case without determining whether it is permissive or compulsory, this is not an appropriate alternative ground for affirming the district court's judgment of dismissal.

The decision whether to dismiss on the ground that the court relies on requires the exercise of discretion by the district court. That, therefore, is a decision that the district court and not this court should make in the first instance. Where a district court abstains from deciding a case within its jurisdiction because of the pendency of a state court proceeding involving the same issue and the appellate court determines that the legal requirements for

abstention have been made, the district court's decision to abstain is reviewed under an abuse-of-discretion standard. *O'Neill v. City of Philadelphia,* 32 F.3d 785, 790 (3d Cir. 1994) (" 'We exercise plenary review over the legal determinations of whether the requirements for abstention have been met. Once we determine that the requirements have been met, we review a district court's decision to abstain under *Younger* abstention principles for abuse of discretion.' "); *Kollsman v. Los Angeles,* 737 F.2d 830, 833 (9th Cir. 1984) *cert. denied,* 469 U.S. 1211 (1985) (same). The same principle appears equally applicable to the ground on which the court affirms the district court's dismissal of the counterclaim here involved.

By determining that the district court properly dismissed the counterclaim on this ground, this court has precluded the district court from exercising its discretion in deciding the question. The district court here dismissed because it concluded that the counterclaim was compulsory, which meant that it had no choice but to dismiss. It cannot be said with certainty, however, that if the district court had determined that the counterclaim was permissive, it would have exercised its discretion in favor of dismissal.

In sum, the principle that an appellate court may affirm the judgment of a district court on any ground the record supports, even though that was not the basis of the district court's decision, cannot properly be applied where, as here, the alternative ground of affirmance involves the exercise of discretion that the district court has not undertaken.

That conclusion is underscored here because the court is reviewing an interlocutory order, which the district court certified for immediate appeal under 28 U.S.C. § 1292(b) because of its determination that its order dismissing Izumi's counterclaim

> involve questions of law as to which there are substantial grounds for differences of opinion and an immediate appeal from such Order may materially

> advance the ultimate termination of the present litigation. The specific issues are whether Izumi is barred from pursuing such counterclaims on the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al.* v. *Windmere Corp., et al.,* which could not be asserted in this action.

That, presumably, was the question the court understood it would decide when it authorized the appeal pursuant to that section. Although a court of appeals that authorizes such an appeal is not limited to deciding the certified question, *Calhoun v. Yamaha Motor Corp.,* 40 F.3d 622, 626 (3d Cir. 1994), *pet. for cert. filed,* (Feb. 17, 1995), affirmance of the district court order on another ground is inappropriate unless the other ground unequivocally requires affirmance. Because of the discretionary nature of the court's alternative-affirmance ground, this is not such a case.

4. I would, therefore, decide the certified question, hold that under Seventh Circuit law Izumi's counterclaim is permissive, not compulsory and reverse the district court's order insofar as it dismissed the counterclaim. Since the court does not address that issue, however, I do not discuss it.

APPENDIX B

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

---

85 C 5366

U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs,

v.

SEARS ROEBUCK & Co., and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants.

MEMORANDUM OPINION

CHARLES P. KOCORAS, District Judge:

This patent infringement/unfair competition dispute is presently before the court on two motions. The first motion is brought by plaintiffs, U.S. Philips Corporation ("U.S. Philips") and North American Philips Corporation ("N.A. Philips"), to vacate the summary judgment entered by this Court on October 5, 1990, dismissing plaintiffs' unfair competition claim against defendant Sears Roebuck & Co. ("Sears"). The second motion is brought by defendant, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") to reconsider this Court's order on December 1, 1987, for partial summary judgment dismissing this defendant's antitrust counterclaims.

For the sake of brevity, the Court will not repeat here the well-known procedural history of this case but will include pertinent procedural facts in our discussion below.

For the reasons set forth below, we will grant plaintiffs' motion to vacate the summary judgment order and will deny Izumi's motion for reconsideration.

DISCUSSION

A. *MOTION TO VACATE SUMMARY JUDGMENT*

Plaintiffs, U.S. Philips and N.A. Philips (collectively "Philips") move this Court to vacate the October 5, 1990 summary judgment order dismissing N.A. Philips' claim for unfair competition against defendant, Sears. Philips argues that the sole basis of our summary judgment order against N.A. Philips rests on the collateral estoppel effect of the Florida court judgment entered against N.A. Philips on its unfair competition claim against Windmere corporation. In support, Philips refers to our memorandum opinion, where we held that the judgments in the Florida cases (*"Windmere"*), preclude Philips' claims against Sears:

> Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law (cite omitted), the court in *Windmere* found that Philips' trade dress was not protected. . . Under *Blonder-tongue* Philips is now barred from relitigating the same issue in Illinois. Accordingly, Sears' motion for summary judgment on Philips unfair competition claim is granted.

(Memorandum Opinion, October 5, 1990, at 12-14). Philips further argues that the basis for our summary judgment ruling is no longer valid because the Federal Circuit vacated the *Windmere* judgment on July 31, 1992 following the parties' settlement agreement and move for vacatur.[1] Philips argues, and we agree, that as a result

---

[1] The procedural history is as follows: In May 1992, Windmere and Philips reached a settlement of the *Windmere* action. Given

of their vacatur, the judgments in *Windmere* no longer have preclusive effect. Accordingly, we will vacate our summary judgment against N.A. Philips.

Defendant, Sears, opposes the motion to vacate the summary judgment, arguing that a judgment's preclusive effect is lost only when the judgment is vacated on the merits, not when the judgment is vacated upon settlement. We find, however, that the caselaw refutes this distinction. Moreover, Sears urges this Court to adopt the Ninth Circuit rule articulated in *Bates v. Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert den Union Oil Co. v Bates*, 112 S. Ct. 1761, 60 U.S.L.W. 3735 (US 1992), holding that a vacated judgment can be given collateral estoppel effect where the parties settled while the judgment was on appeal. We find, however, that, in *Bates*, the Ninth Circuit drew a narrow exception to the settled rule for instances where a district court of that circuit vacates without first undergoing the weighing analysis mandated by the Ninth Circuit law in *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982). Therefore, we find *Bates* inapplicable to the present case where the Federal Circuit vacated the *Windmere* judgments at issue *in compliance* with its own law. Moreover, Sears' implication that the Federal Circuit improperly vacated the *Windmere* judgments misconstrues the instant issue. The issue before this Court is not whether the Federal Circuit was correct in vacating the *Windmere* judgments but, rather, the im-

---

that Philips was giving up its right to appeal by settlement, the parties agreed that they would jointly move to vacate the unfair competition and antitrust judgments. Izumi, the defendant in the patent infringement claim in this action, filed an objection to the motion to vacate the unfair competition judgment. Nonetheless, on July 31, 1992, the Court of Appeals for the Federal Circuit vacated the judgments. *See U.S. Philips v. Windmere Corp.*, No. 92-1020, slip op. at 5 (Fed. Cir. July 31, 1992). On August 12, 1992 the Federal Circuit denied Izumi's motion to stay the mandate for the vacatur order. On October 2, 1992, Izumi's petition for rehearing and for en banc consideration was denied.

pact of the vacatur thereby ordered on our prior summary judgment. For these reasons, we reject Sears' arguments in opposition to the motion to vacate the summary judgment.

The issue in contention between the parties is the collateral estoppel effects of a judgment vacated pursuant to settlement. In the ensuing discussion, we will address first the bases in support of our conclusion that a vacated judgment has no preclusive effect and then our reasons for vacating this Court's summary judgment order.

1. *A Vacated Judgment Has No Preclusive Effect*

As mentioned above, we relied upon the Florida court's *Windmere* judgments in reaching our determination in the summary judgment order that plaintiff's unfair competition claims were precluded on collateral estoppel grounds. On July 31, 1992, however, the Federal Circuit vacated these judgments. For the following reasons, we find that the vacated *Windmere* judgments have lost their preclusive effect.

a. *The Federal Circuit's Vacatur Was Proper*

The Federal Circuit's vacatur of the *Windmere* judgments was in compliance with the law of the Federal Circuit. In *U.S. Philips Corp. v. Windmere Corp.*, No. 92-1020 at 5 (Fed. Cir. July 31, 1992), the Federal Circuit ruled that vacatur of the *Windmere* trial judgments was appropriate because "settlement moots the action on appeal." In reaching this conclusion, the Federal Circuit relied on the following precedent: *Federal Data Corp. v. SMS Data Products Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987) ("When the parties have settled their differences, then the appropriate course of action is for the appellate court to dismiss the action and to vacate the judgment below [citation omitted]."); *Smith Int'l. Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988) ("where it appears upon appeal that the controversy has become entirely moot, which is the effect of settlement in

this case, 'it is the duty of the appellate court to set aside the decree below and to remand the cause with directions to dismiss.' [citation omitted]"); and *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950) ("the established practice of the Court in dealing with a civil case from a court in the federal system which has become moot while on its way here . . . is to reverse or vacate the judgment below"). The Federal Circuit addresses the effect of vacatur pursuant to settlement in its recent *Kimberly-Clark Corp. v. Proctor & Gamble Distributing Co.* decision, which is also noteworthy for its citation of the July 31, 1992 *U.S. Philips* ruling presently contemplated by this Court:

> Here, K-C and P & G settled the infringement issues by granting each other immunity from suit and releasing one another from past infringement damages. We therefore vacate that part of the district court's judgment relating to infringement, as such vacation eliminates judgments on which review has now being foreclosed. *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950); *see also U.S. Philips Corp. v. Windmere Corp.*, No. 92-1020 (Fed. Cir. July 31, 1992); *Federal Data Corp. v. SMS Data Products Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987).

Nos. 92-1011 & 92-1024, 1992 U.S. App. LEXIS 19815 at *6-*7 (Fed. Cir. Aug. 26, 1992). Our determination that the vacatur of the *Windmere* judgments terminates their preclusive effect is thus in accordance with the Federal Circuit's treatment of the issue. We further recognize that the Federal Circuit complied with the law of that circuit when it vacated the *Windmere* judgments in *U.S. Philips.*

b. *The Impact of Vacatur Under Seventh Circuit Law*

We determine that, according to the Seventh Circuit, a vacated judgment loses its preclusive effect, regardless of

whether or not the judgment was vacated pursuant to a settlement. Sears argues that the Seventh Circuit has not yet ruled on the issue whether to give collateral estoppel effect to a federal judgment vacated because the parties settled on appeal. We disagree in view of *Pontarelli Limousine, Inc. v. Chicago,* 929 F.2d 339 (CA7 Ill 1991), *reh, en banc, den Pontarelli Limousine, Inc. v. Chicago,* 1991 U.S. App. LEXIS 9467 (CA7 1991), where the Seventh Circuit held that an Illinois state court judgment lost all preclusive force when it was vacated pursuant to a settlement. In reaching this conclusion, the Seventh Circuit indicated that, though it applied Illinois law, this was federal law as well:

> The first question on appeal . . . is whether the district judge erred in refusing to give the judgment in *Chicago Courtesy* collateral estoppel effect in this case, . . . He did not err. A vacated judgment has no collateral estoppel or res judicata effect under Illinois law, [citation omitted] (or any other law, *No East-West Highway Committee, Inc. v. Chandler,* 767 F.2d 21, 24 (1st Cir. 1985).[2]

Sears points to the Seventh Circuit's holding in *In re Memorial Hospital of Iowa County, Inc.,* 862 F.2d 1299 (7th Cir. 1988), where the court held it would not vacate judgments on a motion by parties who settled while the case was on appeal. Sears uses this holding to argue that the Seventh Circuit's practice of refusing vacatur upon settlement avoids loss of preclusion in the instant case. The Seventh Circuit in *Pontarelli,* however, rejects this argument, which was raised by a party to that suit as well:

---

[2] The court in *No East-West Highway* ruled, "A vacated judgment has no preclusive force either as a matter of collateral or direct estoppel or as a matter of the law of the case." 767 F.2d at 24. The court relied, in part, upon 18 C. Wright, A. Miller & E. Cooper, Federal Practice and Procedure § 4432 at 302 (1981), which reads: "Once . . . the judgment is vacated, preclusion is of course defeated as to any matter that is left open for further proceedings."

> The plaintiffs rely on *In re Memorial Hospital of Iowa County, Inc.*, 862 F. 2d 1299 (7th Cir. 1988), for the contrary position. But that was a case in which we refused to vacate a judgment. *Had we done so, then—as our opinion made clear—the judgment could not have been used in future litigation.* Indeed this case was one of the considerations that moved us not to vacate it. *Id.* at 1302. Maybe the judge in *Chicago Courtesy* should not have vacated the judgment in that case either, but he did so, and thus deprived it of any future effect.

929 F. 2d at 341 (emphasis added). In the instant case, we need not ask whether the Seventh Circuit would have vacated the *Windmere* judgments as did the Federal Circuit. Rather, what is important to the present motion is that the Federal Circuit vacated the *Windmere* judgments in compliance with the law of that circuit. In light of this properly entered vacatur and the *Pontarelli* holding, this Court determines that the *Windmere* judgments no longer have preclusive effect.

c. *Other Circuit's Treatment of This Issue*

We find that other circuits are in agreement with our resolution of this issue. The following court opinions attest to this: *Universal City Studios, Inc. v. Nintendo Co.*, 578 F. Supp. 911, 919 (S.D.N.Y. 1983) *aff'd Universal City Studios, Inc. v. Nintendo Co.* 746 F.2d 112 (CA2 NY 1984) (no preclusive effect as to any issues where court of appeals vacated judgment pursuant to parties's settlement agreement); *Dodrill v. Ludt*, 764 F.2d 442, 444 (6th Cir. 1985) ("[T]he general rule is that a judgment which is vacated, for whatever reason, is deprived of its conclusive effect as collateral estoppel."); *Delta air Lines, Inc. v. McCoy Restaurants, Inc.*, 708 F. 2d 582, 585 (11th Cir. 1983) (After noting that the parties "properly" decided not to argue that a judgment vacated on appeal after settlement carried any preclusive effect, the court

stated a "district court ruling vacated by a court of appeals as moot has no precedential value."); *Harris Trust and Savings Bank v. John Hancock Mutual Life Insur. Co.*, 1992 U.S. App. LEXIS 17451, No. 91-7584 at *25-*26 (2nd Cir. July 30, 1992) ("it is an abuse of discretion for a district court to refuse to enter a vacatur pursuant to a settlement providing that the vacated order could not have collateral estoppel effect in any subsequent action.").[3]

2. *The Summary Judgment Against N.A. Philips Shall Be Vacated*

This Court will vacate the summary judgment against N.A. Philips dismissing its unfair competition claim because the judgment upon which it rests has been vacated by the Federal Circuit in *U.S. Philips*. "[A] second judgment based upon the preclusive effects of the first judgment should not stand if the first judgment is reversed." Charles A. Wright et al., *Federal Practice and Procedure* § 4433 at 311 (1981). *See also Consolidated Express, Inc. v. New York Shipping Ass'n*, 641 F.2d 90, 93-94 (3d Cir. 1981) *prohibition den In re International Longshoremen's Asso.*, 451 U.S. 905 (1981) ("Since the judgment which was the predicate for our discussion of collateral estoppel has been vacated so much of our prior judgment as required giving that judgment any effect in this case must be vacated."); *Fredyma v. AT&T Network Systems, Inc.*, 1991 U.S. App. LEXIS 13699 at *2 (1st Cir. 1991) (Dismissal of a second complaint based on the preclusive effect of the first complaint whose dismissal was later vacated on appeal had to be reinstated because "[a] judgment that has been vacated, reversed, or set aside

---

[3] In agreement is 1AB James Wm. Moore et al., Moore's Federal Practice ¶ 0.416[2] at 517 (2d ed. 1992): "A judgment that has been vacated, reversed, or set aside on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel [footnote omitted] The same is true, of course, of a judgment vacated by a trial court."

on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel."); *Humphreys v. Bic Corp.*, 1991 U.S. App. LEXIS 905 at *11 (CA6 1991) ("A judgment in a second action that rests on the preclusive effects of a judgment in a prior action should not be allowed to stand if the first judgment is reversed.").

Therefore, in light of the Federal Circuit's vacatur of the *Windmere* judgments and our determination that, as such, the judgments no longer have preclusive effect, we vacate the summary judgment this Court entered against N.A. Philips.

B. *MOTION FOR RECONSIDERATION*

Izumi presently moves this Court to reconsider its December 1, 1987 order granting partial summary judgment, where we held that Izumi's antitrust counterclaims were compulsory counterclaims in the *Windmere* action. Izumi bases this present motion on the alleged reversal of representations made by Philips before the Federal Circuit and this Court. Izumi contends that Philips currently asserts that the predatory pricing antitrust counterclaims do not arise out of the same transaction or occurrence as the subject matter of the patent claim filed by U.S. Philips against Izumi, whereas at the time of moving for summary judgment against Izumi's antitrust counterclaims, Philips asserted the exact opposite. The issue we must address is whether Philips' allegedly contradictory representations entitles Izumi to have its counterclaims reinstated. We determine that they do not and thereby deny Izumi's motion.

In our December 1, 1987 opinion, this Court determined that Izumi's antitrust claims were compulsory counterclaims which should have been brought in the Florida *Windmere* action. This Court then concluded that since Izumi did not file these claims in the Florida action and the case proceeded to final judgment, Izumi was barred from bringing those claims here. We stated:

> Thus, Izumi as a named defendant to the patent infringement claim, and the conceded "real party in interest" to the claim of unfair competition, had the capacity to present its entire controversy in the *Windmere* lawsuit. It was, therefore, incumbent upon Izumi to do so or be forever barred.

(Memorandum Opinion, at 13). Therefore, we granted partial summary judgment for Philips, holding that Izumi's antitrust counterclaims were compulsory counterclaims in *Windmere* and, as such, were barred from the instant action.

We recognize that Izumi's three prior motions for reconsideration were denied by this Court on December 22, 1987, May 19, 1989, and May 17, 1990. On all three occasions, we ruled that Izumi had presented nothing that in any way affected the basis for this Court's original ruling. Once again, we find that Izumi's contentions do not refute the wisdom of our prior holding. The fact of Philip's change in position, even if it is true, does not give this Court sufficient ground to reverse its prior ruling that Izumi's claims were compulsory counterclaims which should have been brought in the Florida action. Consequently, Izumi's motion to reconsider is denied.

CONCLUSION

For the foregoing reasons, we grant Philips motion to vacate the summary judgment entered by this Court on October 5, 1990, dismissing Philips' unfair competition claim against Sears. We deny Izumi's motion for reconsideration.

/s/ Charles P. Kocoras
CHARLES P. KOCORAS
United States District Judge

Dated: Oct. 13, 1992

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

93-1188

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs-Appellees,

v.

SEARS ROEBUCK & CO. and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendant-Appellants.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on July 13, 1995.

Circuit Judge NIES did not participate in the vote.

FOR THE COURT,

FRANCIS X. GINDHART
Clerk

By /s/ Diane M. Frye
DIANE M. FRYE
Chief Deputy Clerk

Dated: July 6, 1995

cc: GARY M. HOFFMAN
WILLIAM E. WILLIS

APPENDIX D

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

---

85 C 5366

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORP.,
Plaintiffs,

v.

SEARS ROEBUCK & CO. and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants.

MEMORANDUM OPINION

CHARLES P. KOCORAS, District Judge:

This patent infringement/unfair competition dispute is presently before the court on three motions brought by Defendants Sears Roebuck & Co. ("Sears") and Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"). The first motion is for summary judgment dismissing Plaintiffs U.S. Philips Corporation and North American Philips Corporation (both referred to jointly as "Philips") on their claim for infringement of U.S. Patent No. 4,227,301 (the "301 patent"). The second motion is for summary judgment dismissing Philips' claim for infringement of U.S. Design Patent No. 259,591 (the '591 patent"). The third motion the defendants bring is for summary judgment dismissing Philips' claim for unfair competition. For the reasons stated herein, the first and second motions are denied and the third motion is granted.

FACTS

Izumi is a Japanese corporation which sells razors to Windmere Corporation and Sears for resale in the United States. Windmere sells its razors under the "Ronson" trade name and Sears sells its razors under the name "Sears Rotomatic." N.V. Philips is a Netherlands corporation which sells its razors in the United States through American Philips Corporation under the tradename "Norelco." N.V. Philips indirectly owns or controls U.S. Philips, a Delaware corporation which holds intellectual property rights including the utility and design patents at issue in this case.

Philips filed this action on June 6, 1985, alleging that Sears infringed and Izumi induced the infringement of the '301 patent and the '591 patent. Specifically, in their claim for the infringement of the '301 patent, Philips allege that the design of the Sears Rotomatic shaver blade setting is an unfair copy of the design of Philips' rotary electric shaver blade setting. Concerning the infringement of the '591 patent, Philips allege that the faceplate of the Sears' Rotomatic III shaver is an infringment of the '591 patent. On February 12, 1986, Philips filed a supplemental complaint against Sears alleging two counts of unfair competition, claiming that the design of a Sears shaver was a copy of the design of some of Philips' shavers.

On June 13, 1988, this court granted summary judgment as to Izumi and denied as to Sears on the '301 patent infringement claim. This court also denied the defendants' motion for summary judgment as to the '591 patent infringement claim as material issues of fact existed which could only be decided by the trier of fact.

Philips had filed a similar lawsuit against Izumi and Windmere, the other seller of Izumi razors, in a Florida district court in October 1984. Philips claimed an infringement of the '301 patent and unfair competition in voilation of 43(a) of the Lanham Act, 15 U.S.C. § 1125

U.S. Philips v. Windmere Corp., No. 84-2508-Civ (the "Florida litigation"). In that suit Philips alleged that the design of all of the rotary electric shavers sold by Windmere were an unfair copy of the design of some of Philips rotary electric shavers. Izumi filed a declaratory judgment counterclaim in the Florida litigation alleging that the '301 patent was invalid and not infringed. That case proceeded to a jury trial and on April 30, 1986, the court entered final judgment on the jury's verdict in favor of Philips on the patent infringement claims, against Izumi on its declaratory judgment counterclaim, and against Philips on its unfair competition claims. On March 20, 1988, the Florida Court granted Philips' motion for a new trial on its unfair competition claims only. Philips' unfair competition claim was retried in Florida in March and April 1990. On April 6, 1990, the jury found for Windmere on all issues. Philips then filed motions for a judgment notwithstanding the verdict and for a new trial in the Florida action.

DISCUSSION

I. Summary Judgment Standard

Summary judgment is appropriate if the pleadings, answers to interrogatories, admissions, affidavits and other materials show "that there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). A material fact is one which might effect the outcome of the suit under applicable law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). No genuine issue exists "unless there is sufficient evidence favoring the non-moving party for a jury to return a verdict for that party." *Id.* at 249. Summary judgment may be granted if the evidence is merely colorable or is not significantly probative. *Id.* at 249-50.

When a properly supported motion for summary judgment has been made, the opposing party "must set forth

specific facts showing that there is a genuine issue for trial." *Id.* The opposing party is entitled to the benefit of all favorable inferences which can reasonably be drawn from the underlying facts; however, only *reasonable* inferences will be drawn, not every conceivable inference. *DeValk Lincoln Mercury, Inc. v. Ford Motor Co.*, 811 F.2d 326, 329 (7th Cir. 1987).

II. '301 Patent

Defendant Sears moves under the doctrine of collateral estoppel for summary judgment based upon the results of the trials in *U.S. Philips v. Windmere*, No. 84-2508-Civ ("Windmere"). In *Windmere* the jury awarded Philips $6,500.00 for Izumi's infringement of the '301 patent. Sears argues that because Izumi provided Sears with substantially the same shaver parts as Izumi gave Windmere, any patent infringement of the '301 patent by Sears should result in the same damage award as the jury awarded in *Windmere*. Sears seeks an order limiting the damages for any '301 patent infringements to $6,500.00.

Philips responds by arguing that 1) there is no showing that the infringements by Sears and Windmere were identical, 2) Philips may be awarded increased damages in the present case because of the Philips' claim that Sears willfully infringed the patent, and 3) it is unclear how the jury in *Windmere* came to award $6,500.00 in damages. Thus, the $6,500.00 award should not be following in the present case. We agree with Philips.

A. *Law of Collateral Estoppel*

The collateral estoppel doctrine precludes relitigation of issues in a subsequent proceeding when the following four elements are satisfied: 1) the party against whom estoppel is asserted was a party to the prior adjudication; 2) the issues forming the basis of the estoppel were actually litigated and decided on the merits in the prior suit; 3) resolution of those particular issues was necessary

to the court's judgment and 4) those issues are identical to the issues raised in the subsequent suit. *County of Cook v. Midcom Corp.*, 773 F.2d 892, 898 (7th Cir. 1985); *Guenther v. Holmgreen*, 738 F.2d 879, 844 (7th Cir. 1984). Collateral estoppel "must be confined to situations where the matter raised in the second suit is identical in all respects with that decided in the first proceeding and where the controlling facts and applicable legal rules remain unchanged." *Commissioner v. Sunnen*, 333 U.S. 591, 599-600 (1948). The party asserting collateral estoppel has the burden of proving each of those elements. *Folson v. Continental Illinois National Bank & Trust Co.*, 633 F. Supp. 178, 181 (N.D. Ill. 1986). Even where those elements are shown, however, there is no preclusion if the party against whom collateral estoppel is asserted had no full and fair opportunity to litigate the issues in the former action. *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 91 S. Ct. 1434, 1445 (1971).

B. *Application to claim '301 patent infringement*:

The Florida jury's award of $6500.00 for Izumi and Windmere's infringement of the '301 patent is not binding in this suit for Sears' infringement. To begin, Sears has made no showing that the circumstances of its infringement are identical to Windmere's. The facts suggest different periods of infringement by different shavers. Sears acknowledged that it began selling Izumi-manufactured rotary shavers in 1977, whereas, the evidence in *Windmere* showed that Windmere did not begin selling rotary shavers until 1984.

In addition, if Philips is successful in proving willful infringement by Sears, Philips may get increased damages under 35 U.S.C. 284. Finally, the *Windmere* jury awarded a dollar amount without a clear explanation of the method of calculation. Sears argues that the jury used the cost to Izumi to make a non-infringing replacement part as the basis of their damage calculation. This is specula-

tion. Without more, the damage award in *Windmere* will not be assumed to apply to Sears. Philips should be free to seek damages specific to Sears' alleged infringement in this action. Sears' motion for summary judgment to limit the damage award is denied.

III. '591 Patent

Sears and Izumi seek summary judgment on the '591 patent infringement claim as 1) Philips admitted on three occasions that the Sears Rotomatic III faceplate does not infringe the '591 patent, and 2) the Sears Rotomatic III faceplate does not duplicate any novel feature of the '591 faceplate.

Philips responds by arguing that 1) this is a duplicate motion that this court already denied and the law has not changed to warrant a reversal of the court's prior ruling, 2) the alleged admissions are taken out of context, and 3) there is a factual issue for the jury as to whether the designs would confuse the ordinary purchaser. Therefore, summary judgment is inappropriate here. We agree with Philips.

We will view Sears' motion for summary judgment on the '591 patent infringement claim as a new motion and discuss it accordingly. In our June 13, 1988, opinion in this case we informed the parties that the infringement claim required a comparison by the "ordinary observer" under the *Gorham* test. The *Gorham* test provides:

> if, in the eye of a ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.

Gorham Mfg. Co. v. White, 81 U.S. 511, 528 (1872).

Sears argues that on different occasions a Philips' researcher, attorney, and Vice President for marketing all

admitted that the Sears Rotomatic did not duplicate the '591 patent. Philips responds that these alleged admissions are taken out of context. Moreover, as we stated in our June 13th opinion, the Vice President of marketing is not the "ordinary observer". Likewise, the attorneys and researchers are not ordinary observers. Moreover, there still exits a factual dispute as to whether the Sears Rotomatic would confuse the ordinary purchaser.

Sears also argues that *Avia Group International, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557 (Fed. Cir. 1988) establishes a new standard for infringement claims, requiring the infringing item to copy the novel feature of the infringed patent. Sears argues that its faceplate does not copy the novel feature of the '591 faceplate. However, even under *Avia Group*'s novel feature standard, Sears' argument must fail.

There is a factual issue as to what the '591 novel features are. The parties disagree on which diagrams are accurate representations of the '591 faceplate and the Sears Rotomatic faceplate. Also, Sears argues that '110 patent is prior art to '591. Philips claims that '110 patent is a utility patent primarily directed to the inner mechanism of a shaver. Clearly, with such disagreements between the parties, the issue of whether Sears has infringed the '591 patent presents factual issues for the trier of fact. Accordingly, Sears motion for summary judgment on the issue of whether the Sears Rotomatic infringed '591 patent is denied.

IV. Unfair Competition

Sears seeks summary judgment dismissing the unfair competition claim as Philips fully litigated and lost the identical claim in *Windmere*. Specifically, Sears argues that 1) two juries found the three elements necessary to an unfair competition claim lacking in *Windmere*, 2) both the *Windmere* claim and the present claim were brought under § 43(a) of the Lanham Act, § 1125(a) of 15

U.S.C., 3) the jury instructions that the Florida judge gave on functionality and second meaning were consistent with Illinois law, and 4) the Seventh Circuit twice rejected Philips' different law arguments.

Philips responds that it has not had a full and fair opportunity to litigate its case against Sears as Sears was not a party in *Windmere*. Specifically, Philips argues that 1) Illinois courts and Florida courts analyze the issues of functionality and secondary meaning differently and the burdens are different for the plaintiffs and defendants, and 2) the likelihood of confusion to consumers is based on many marketing factors which will be different for Sears than they were for Windmere. Thus, summary judgment is inappropriate in this case. However, Philips' arguments miss the point. The *Windmere* court has already determined that Philips' trade dress is not protected, thus, whether Sears actually copied it or not is irrelevant.

To receive legal protection for a trade dress a party must generally prove the following three elements: 1) its design was primarily non-functional; 2) the design had achieved secondary meaning; and 3) there was a likelihood of confusion between the plaintiff's product and the defendant's product. *See e.g., Blau Plumbing Inc. v. S.O.S. Fix-it, Inc.*, 781 F.2d 604, 608-611 (7th Cir. 1986). Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law, *see, e.g., Blau*, 781 F.2d at 610, the court in *Windmere* found that Philips' trade dress was not protected.

In a patent infringement suit, the patentee is estopped from asserting the validity of a patent that had already been declared invalid in a prior suit in federal court against a different defendant, unless the patentee demonstrates that he did not have fair and full opportunity, substantively, procedurally, and evidentially, to litigate the

validity of his patent in the prior suit. *Blonder-Tongue Laboratories v. University of Illinois Foundation,* 91 S. Ct. 1434, 1445 (1971); *A.J. Canfield Company v. Vess Beverages, Inc.*, 859 F.2d 36, 40 (7th Cir. 1988).

In the present case, Philips has presented no evidence to suggest that they did not have a full and fair opportunity to litigate their trade dress in Florida. In fact, Philips litigated their trade dress in Florida on two different occasions. As Philips points out, were the court to accept Philips' position, Philips would be allowed to argue circuit by circuit whether its trade dress should be protected. This would lead to an inconsistent result where Philips' trade dress would be functional, and capable of being copied, in some circuits and non-functional and not capable of being copied in others.

The arguments Philips presents to argue that the law and burden of persuasion differ in Illinois and Florida are off base. Philips *chose* to litigate its trade dress in Florida. Philips was prepared to and did litigate its claim to the finish. Under *Blonder-tongue* Philips is now barred from relitigating the same issue in Illinois. Accordingly, Sears' motion for summary judgment on Philips' unfair competition claim is granted.

/s/ Charles P. Kocoras
CHARLES P. KOCORAS
United States District Judge

Dated: October 5, 1990

APPENDIX E

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

---

85 C 5366

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs,

v.

SEARS ROEBUCK & Co., and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants.

ORDER

CHARLES P. KOCORAS, District Judge:

This Court, with the agreement of the parties, has decided that the questions ruled upon in its Memorandum Opinions and orders dated December 1, 1987, December 22, 1987, May 19, 1989, May 17, 1990 and October 13, 1992 should be certified for immediate appeal pursuant to 28 U.S.C. § 1229(b). Accordingly,

(1) IT IS ORDERED that the Orders of this Court entered on December 1, 1987, December 22, 1987, May 19, 1987, May 17, 1990, and October 13, 1992 be amended to include the following statement in such Orders that:

> "In the opinion of this Court, these Orders granting Summary Judgment against Izumi's antitrust counterclaims involve questions of law as to which there are substantial grounds for differences of opinion and an

immediate appeal from such Order may materially advance the ultimate termination of the present litigation. The specific issues are whether Izumi is barred from pursuing such counterclaims on the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al.* v. *Windmere Corp., et al.* which could not be asserted in this action, and whether Izumi has standing to raise these particular antitrust counterclaims."

(2) IT IS ORDERED that the Order of this Court entered on October 13, 1992, be and is hereby amended to include the following statement in such Order:

"In the opinion of this Court, this Order reconsidering this Court's prior Summary Judgment against N.A. Philips' unfair competition claims and reinstating those claims involve a controlling question of law as to which there is a substantial ground for difference of opinion, and an immediate appeal from such Order may materially advance the ultimate termination of this litigation. Such issue involves whether under the law of the 7th Circuit, plaintiff N.A. Philips can be barred under collateral estoppel from again retrying the issue of trade dress infringement in view of the findings of the jury and the judgment of the Court in *U.S. Philips Company et al.* v. *Windmere Corp., et al.*, where the final judgment of the Court was vacated predicated upon a settlement reached between Philips and Windmere."

3. The bases for differing opinion on these issues are apparent in this Court's Memorandum Opinions and Orders. They are controlling questions of law in this litigation because they determine whether principal claims of the parties may be tried. An immediate appeal from these Memorandum Opinions and Orders may materially advance the ultimate termination of this cause because such an appeal will determine with finality which claims will proceed to trial. This will avoid the potential for multiple

trials at considerable expense if any of this Court's ruling on the questions are found to be in error and prompt resolution of these issues may promote settlement.

/s/Charles P. Kocoras
CHARLES P. KOCORAS
United States District Judge

Dated: November 6, 1992

APPENDIX F

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Miscellaneous Docket No. 361

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs-Respondents,

v.

SEARS ROEBUCK & CO. and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants-Petitioners.

On Petition for Permission to Appeal

Before MAYER, *Circuit Judge*, COWEN, *Senior Circuit Judge*, and SCHALL, *Circuit Judge*.

SCHALL, *Circuit Judge*.

ORDER

Izumi Seimitsu Kogyo Kabushiki Kaisha (Izumi) and Sears Roebuck & Co. (Sears) petition for permission to appeal from certain orders of the United States District Court for the Northern District of Illinois certified for immediate appeal pursuant to 28 U.S.C. § 1292(b), (c)(1) on November 6, 1992. U.S. Philips Corporation and North American Philips Corporation (Philips) filed a

response stating that they do not oppose the motion, but that they believe that the district court's orders are correct.

This case from the Illinois district court and a related case from a Florida district court have a long and complex procedural history. For purposes of this petition, only the following is pertinent. Philips sued Windmere Corporation and Izumi in a Florida district court in 1984 for, inter alia, patent infringement, inducement to infringe, and unfair competition under the Lanham Act. Windmere, but not Izumi, counterclaimed against Philips under the antitrust laws. After a jury trial, an appeal, a remand, another trial, and a second appeal, Philips and Windmere settled.[1] On July 31, 1992, this court granted Philips' and Windmere's joint motion to vacate the district court's judgment.

Meanwhile, in 1985 Philips sued Sears and Izumi in the Illinois district court for patent infringement, inducement, and unfair competition. Izumi counterclaimed under the antitrust laws.

The Illinois district court issued various orders over the years concerning whether Izumi was barred from pursuing its antitrust counterclaims in Illinois because it failed to file such a counterclaim in Florida and whether Philips was collaterally estopped from retrying the Lanham Act claims after the Federal Circuit vacated the Florida judgment. In the final analysis, the Illinois district court determined that Izumi was barred from now asserting an antitrust counterclaim and that Philips was not collaterally estopped from retrying the Lanham Act claims. The district court certified its orders and set forth the controlling questions of law:

> In the opinion of this court, these Orders granting Summary Judgment against Izumi's antitrust counterclaims involve questions of law as to which there are

---

[1] Neither Windmere nor Izumi sought appellate review of the jury's $6,500 damages award for infringement.

substantial grounds for differences of opinion and an immediate appeal from such Order may materially advance the ultimate termination of the present litigation. The specific issues are whether Izumi is barred from pursuing such counterclaims on the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al. v. Windmere Corp., et al.* which could not be asserted in this action, and whether Izumi has standing to raise these particular antitrust counterclaims.

In the opinion of this Court, this Order reconsidering this Court's prior Summary Judgment against N.A. Philips' unfair competition claims and reinstating those claims involve a controlling question of law as to which there is a substantial ground for difference of opinion, and an immediate appeal from such an Order may materially advance the ultimate termination of this litigation. Such issue involves whether under the law of the 7th Circuit, plaintiff N.A. Phillips can be barred under collateral estoppel from again retrying the issue of trade dress infringement in view of the findings of the jury and the judgment of the Court in *U.S. Philips Company et al. v. Windmere Corp., et al,* where the final judgment of the Court was vacated predicated upon a settlement reached between Philips and Windmere.

We agree with the parties and the district court that the orders were appropriate for certification.[2] The questions of law are not relevant just to the particular facts of the case, but could be of importance to the bar in general. Further, as pointed out by Izumi and Sears, there are conflicting circuit views about these issues and uncertainty regarding Supreme Court precedent. Finally, re-

[2] A certified order must involve a controlling question of law as to which there is a substantial difference of opinion and an immediate appeal should materially advance the ultimate termination of the litigation. 28 U.S.C. § 1292(b).

viewing these interlocutory appeals will determine with finality which claims will proceed to trial and, thus, may materially advance the ultimate termination of the litigation.

Accordingly,

IT IS ORDERED THAT:

Izumi and Sears' petition for permission to appeal is granted.

FOR THE COURT

/s/ Alvin A. Schall
ALVIN A. SCHALL
Circuit Judge

Date Dec. 10, 1992

cc: Gary M. Hoffman, Esq.
Sheldon Karon, Esq.

Supreme Court, U.S.
FILED
NOV 3 1995
OFFICE OF THE CLERK

No. 95-551

IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

SEARS ROEBUCK & CO.,

Petitioner,

v.

U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF RESPONDENTS IN OPPOSITION

GARRARD R. BEENEY
Counsel of Record
125 Broad Street
New York, New York 10004
(212) 558-4000

JAY L. POMERANTZ
MICHAEL E. JOHNSON
SULLIVAN & CROMWELL
Of Counsel

November 3, 1995

BEST AVAILABLE COPY

COUNTERSTATEMENT OF QUESTION PRESENTED

Whether, contrary to time-honored and unanimous precedent, collateral estoppel may be applied under the law of the Seventh Circuit without a final judgment.

RULE 29.6 STATEMENT

The parents and subsidiaries of Respondents U.S. Philips Corporation, North American Philips Corporation and N.V. Philips Gloeilampenfabrieken, other than those that are wholly owned, are listed below:

Famar Fueguina Sociedad Anónima
Electric Lamp Manufacturers (Australia) Pty. Limited
Medical Applications Pty. Limited
Telekabel-Fernsehnetz Region Baden Betriebsgesellschaft m.b.H.
Telekabel-Fernsehnetz Graz Betriebsgesellschaft m.b.H.
Telekabel-Fernsehnetz Klagenfurt Betriebsgesellschaft m.b.H.
Telekabel Wien Aktiengesellschaft
Telekabel-Fernsehnetz Wiener Neustadt/Neunkirchen Betriebsgesellschaft m.b.H.
Neutronics Electronic Industries Holding Gesellschaft m.b.H.
Payer-Lux Verwaltungsges. m.b.H.
ACEC Lighting
Bedrijvencentrum Regio Brugge
Philips Coordination Center
Cable and Wire Assemblies
CWA-Immobiliën
European Development Center
Europese Maatschappij voor fabricage en verkoop van gloeilampenonderdelen "EMGO"
IBLIS FILMS
International Creative Digital Image
Philips Interactive Media Centre
Philips Matsushita Battery Corporation
Pastel

P.D.G. & Partners
Fonobras-Distribuidora Fonografica Brasileira Ltda.
Origin C&P Services Brasil Participaçoes Ltda.
Peterco do Nordeste Produtos Elétricos S.A.
Philips Automotive Lighting Hubei Co., Ltd.
Beijing Philips Audio/Video Corporation
Car Audio Electronics (China) Company Limited
Philips and Sanye Passive Components No. 1 Co., Ltd.
Philips Consumer Electronics Co. of Suzhou, Ltd.
Philips Domestic Appliances and Personal Care Company of Zhuhai SEZ, Ltd.
Feidong Lighting Company, Limited
Changshu Philips Ferrite Co., Ltd.
Hua Fei Colour Display Systems Company, Ltd.
Nanjing Huapu Electronics Company, Ltd.
Philips and Sky Medical Systems Nanjing Ltd.
Shenzhen Shen Fei Plastics and Metalware Company, Limited
Advanced Semiconductor Manufacturing Corporation of Shanghai
Philips & Yaming Lighting Co. Ltd.
Industria Andina de Iluminación S.A. "INADISA"
Bang & Olufsen A/S
Origin/C&P Denmark A/S
El Nasr Company for Electrical and Electronic Apparatus (NEEASAE)
PEC Musiikkitukku Oy
Valaisinpaja Oy
Apogée Communications S.A.
77, Centelec S.A.
Cinea S.A.
COGEDEP, Cie Générale Européenne de Distribution et d'Edition Phonographique S.A.
Le Consul S.A.
Experdata S.A.

INFOGRAMES
Société Industrielle Lenzi
Oui FM S.A.
La Radiotechnique
Ryan Jones S.A.R.L.
Société d'Etudes et Réalisations Nucléaires "Sodern"
Bankgeschäft Heinrich Behncke GmbH
CeQuadrat, Gesellschaft für Vertrieb von Soft- und Hardware G.m.b.H.
Euroventures Deutschland GmbH & Co. KG
Speziallampenfabrik Dr. Fischer GmbH
AFG Elektronik GmbH
Grundig Autoradio-Entwicklungs GmbH
Firmenverband zur Förderung der beruflicher Weiterbildung ffw GmbH
Grundig-Gildemeister Automation GmbH
Grundig Leasing GmbH
Grundig Multimedia Solutions (GMS) GmbH
GRUNDIG Aktiengesellschaft
GRUNDIG Elektrogeräte-GmbH
Grundig E.M.V. Elektro-Mechanische Versuchsanstalt Max
Grundig GmbH & Co. KG
Grundig TV-Communications GmbH
Viscom Industrielle Bildverarbeitung GmbH
IR3 Video International GmbH
Kegler Lichttechnik
MGH Marketing Gesellschaft für Handelsservice mbH
Philips Mietsystem GmbH
PDO Professional Digital Optical Media GmbH & Co. K.G.
PDO Professional Digital Optical Media Verwaltungs GmbH
PhonoNet Gesellschaft für Handelsdienstleistungen m.b.H.

Philips Kommunikations Industrie Aktiengesellschaft
PMA Prozess- und Maschinen-Automation GmbH
prompt ! Medizinische Informationssysteme GmbH
Norddeutsche Seekabelwerke AG
SMST SubMicron Semiconductor Technologies GmbH
Sounds Plus Club Marketing GmbH
TECSO Automation GmbH
Car Audio Electronics (Hong Kong) Limited
Electronic Devices Limited
Mobile One Limited
Valen Limited
Philips Monitors Manufacturing Hungary Free Trade Zone Limited Liability Company
PolyGram Music Publishing Company Hungary LLC
PolyGram Records Hungary LLC
Hungarian Speaker Systems Manufacturing and Trading Limited Liability Company
Hind Lamps Limited
Origin Technology in Business (India) Limited
Punjab Anand Lamp Industries Limited
Philips India Limited
PolyGram India Ltd.
Philips Telecommunication Industries Limited
P.T. Philips Development Corporation
P.T. Grundig International Indonesia
P.T. Intra Philindokon
P.T. Philips-Ralin Electronics
Radioelectric Iran Ltd. (Public Joint Stock Company)
Silicon & Software Systems Limited
Philips Automation S.p.A.
Chapulin Edizioni Musicali S.r.L.
C.P. Factor S.r.1.
Music Direct Italia S.p.A.
Villa Sistemi Medicali S.r.1.
Denshi Media Services Company Limited

K.K. Keystone
Marantz Japan, Inc.
Polydor K.K.
Sanken-Airpax Co., Ltd.
Philips Sensor Technology Corporation
Sirius Music Publishing K.K.
Nihon Tecnico K.K.
Your Records K.K.
Daishin and Philips Lighting Autolamps Co., Ltd.
Polygram Ltd.
Philips Precision Korea, Ltd.
Light Incorporated and Trading S.A.L.
Binafron Telecommunications Sdn. Berhad
Electronic Systems (Malaysia) Sdn. Bhd.
Malaysian Lamps Sendirian Berhad
Philips and JVC Video Malaysia Sdn. Bhd.
Semiconductor Miniature Products (M) Sdn. Bhd.
Zaw-Tech (Malaysia) Sdn. Bhd.
Origin C & P Mexicana, S.A. de C.V.
Compañía de Vidrio Industrial, S.A. de C.V.
Maroc Lumière Industrie
Manufacture Nationale pour la Réfrigération et
l'Electronique "MANAR"
Advanced Metal Forming B.V.
Advanced Metal Forming C.V.
ASM Lithography Holding N.V.
Berlo Service Group B.V.
BSO/Beheer B.V.
CDi Partner B.V.
ConNova Holland B.V.
Centre for Quantitive Methods CQM B.V.
Flat Panel Display Co. (FPD) B.V.
Icotel International B.V.
Interactive Entertainment Fund C.V.
Bank Mendes Gans N.V.

Meteor Classics B.V.
Micro Scope B.V.
Motown Entertainment Nederland B.V.
MPC Hilversum B.V.
Music Plus v.o.f.
Noble Europe B.V.
Origin/C&P Nederland v.o.f.
PDO Professional Digital Optical Media B.V.
PDO Professional Digital Optical Media C.V.
PolyGram N.V.
Pyton Communications Services B.V.
Record Service Benelux v.o.f.
SPaSE Holding B.V.
Telematica Transacties B.V.
TeleSelect Nederland B.V.
Teleworld Holding B.V.
United and Philips Communications B.V.
New Zealand Electric Lamp Manufacturers Limited
Fluorescent Lamp Partnership
Associated Electronic Products (Nigeria) Limited
PPC (Philips Projects Centre) Limited
Music Service Oslo A/S
TV Torget A/S
Philips Electrical Industries of Pakistan Limited
Polycosmic Records Incorporated
Philips Consumer Electronics Industries Poland Sp.z.o.o.
Grundig Polska Sp.z.o.o.
Philips Matsushita Battery Poland S.A.
Blaupunkt Auto Radio Portugal Lda.
CENDI - Produtos Multimédia, S.A.
Grundig Auto-Radio Portugal Lda.
NACIONALIS - Importao e Exportao, Lda.
Origin C P Portuguesa (Tecnologias de Informaçao), Lda.
Philips Sistemas Telecomunicacoes, Ltda.

Star Invest Limited
Philips Medical Systems Services Closed Joint Stock Company
PolyGram A.O.
Velt Open Joint Stock Company
Signal Telecom
Consolidated Lamp Manufacturers (Pty) Ltd.
Philips Electronics (South Africa) (Proprietary) Limited
Philips Electronics Holdings Limited
Compañia General Española de Electricidad
Sogepaq Distribuçion S.A.
Total Distribuçion S.A.
Electro Válvula S.A.
Arigram Record Service AB
Connova Produktkonsult AB
Kjell Gurfors Internkommunikation AB
Origin/C&P Sweden AB
Stockholm Records AB
Stockholm Songs AB
TVExtra AB
Virgin Sonet Försäljnings AB
Discorack-Nco AG
Elevite AG
Glühlampenfabrik GLORIA AG
Decca Records Taiwan Ltd.
Featron Technologies Corporation
PolyGram Music Publishing Ltd.
Taiwan Semiconductor Manufacturing Company Limited
Windmill Company Ltd.
Société Tunisienne d'Eclairage
Systel
Turk Philips Aydinlatma Sanayi ve Ticaret Anonim Sirketi
Birlesik Aydinlatma Sanayi ve Ticaret Anonim Sirketi

Turk Philips Ticaret Anonim Sirketi
Turk Philips Sanayi Anonim Sirketi "Philisan"
Adrawing Ltd.
Africa Fete Ltd.
Alto Music Ltd.
BITS Corporation Limited
CD-I Training Limited
Cedarwood Music Ltd.
Croxton Investments Limited
Debonaire Music Ltd.
DEF American Ltd.
Delphic Card Systems E.E.I.G.
Dominic Music Ltd.
Eros Music Systems Ltd.
F F R R Records Ltd.
Folklore Ltd.
Gee Street Music Ltd.
Gee Street Records Ltd.
Go ! Holdings Ltd.
Gooding Microwave Technology Ltd.
Gralto Music Ltd.
Grundig Satellite Communications Ltd.
Kempston [1987] Limited
Lavington Investments Limited
Philips Lighting Manufacturing Limited
Megahertz Communications Limited
Morrison Hotel Music Ltd.
Origin C&P Limited
Pageant Music Ltd.
Paragon Publicity & Public Relations Ltd.
Plazastreet Limited
Producer Services Holding Limited
Pyecam Company Limited
Really Useful Holdings Ltd.
Rolegram Ltd.

Spencer Davis Music Ltd.
Teletext Holdings Limited
Tiger Music Ltd.
Vision Videolabel Ltd.
Working Title TV Limited
Alliance/IT, L.L.C.
Standard Amateur Radio Products, Inc.
Cellularvision Technology & Telecommunications L.P.
Computer Access Technology Corporation
Def Jam Records, Inc.
Electronic Ballast Technology, Inc.
EBT, Inc.
Grundig Business Systems Inc.
Gramercy Pictures
Great Entertainment Merchandise, Inc.
Grundig Business Systems, Inc.
Interscope Communications, Inc.
London Music
London Publishing
London Records
Mepcopal
Metropolitan Entertainment Co., Inc.
Navigation Technologies Corporation
OptImage Interactive Services Company, L.P.
PolyGram/Philips Media Game, Inc.
Rush Associated Labels Recordings
Songs of London
Standard Communications Corp.
WCLP L.P.
Philips Consumer Products Yugoslavia, Trade Company with Limited Liability

TABLE OF CONTENTS

	Page
COUNTERSTATEMENT OF QUESTION PRESENTED	i
RULE 29.6 STATEMENT	ii
TABLE OF AUTHORITIES	xiii
STATEMENT OF THE CASE	2
REASONS FOR DENYING THE WRIT . . .	4
SUMMARY	4
I. PETITIONER'S QUESTION PRESENTED GOES FAR BEYOND THE ISSUE RAISED AND DECIDED BELOW	6
II. COURTS HAVE UNIFORMLY RULED THAT COLLATERAL ESTOPPEL REQUIRES A FINAL JUDGMENT AND THIS COURT HAS RULED THAT A VACATED JUDGMENT HAS NO PRECLUSIVE EFFECT	7

Page

III. APPLYING *U.S. BANCORP* RETROACTIVELY TO ALTER THE RESULT OF *WINDMERE* WOULD DESTROY THE FINALITY OF JUDGMENTS 10

IV. NO DETERMINATION CAN BE MADE ON THIS RECORD THAT THE VACATUR IN *WINDMERE* CONFLICTS WITH *U.S. BANCORP* 12

V. THE DECISION BELOW DOES NOT CONFLICT WITH *BATES* 13

CONCLUSION 14

TABLE OF AUTHORITIES

Cases

	Page
Aurora City v. *West*, 74 U.S. 82 (1868)	8
Bates v. *Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert. denied*, 503 U.S. 1005 (1992)	6, 13, 14
Ellis v. *Dixon*, 349 U.S. 458 (1955)	6
Federal Data Corp. v. *SMS Data Prods. Group, Inc.*, 819 F.2d 277 (Fed. Cir. 1987)	14
Federated Dep't Stores, Inc. v. *Moitie*, 452 U.S. 394 (1981)	5, 10-11
G&C Merriam Co. v. *Saalfield & Ogilvie*, 241 U.S. 22 (1916)	8
Harper v. *Virginia Dep't of Taxation*, __ U.S. __, 113 S. Ct. 2510 (1993)	11
Nevada v. *United States*, 463 U.S. 110 (1983)	8

Page

Reed v. *Proprietors of Locks & Canals*,
49 U.S. 274 (1850) 8

Schwinn Bicycle Co. v. *Ross Bicycles, Inc.*,
870 F.2d 1176 (7th Cir. 1989) 3

Smith Int'l, Inc. v. *Hughes Tool Co.*,
839 F.2d 663 (Fed. Cir. 1988) 14

Sunal v. *Large*,
332 U.S. 174 (1947) 11

United States v. *Munsingwear, Inc.*,
340 U.S. 36 (1950) 8

United States v. *Williams*,
504 U.S. 36 (1992) 6

U.S. Bancorp Mortgage Co. v. *Bonner Mall Partnership*,
__ U.S. __, 115 S. Ct. 386 (1994) . . . . . *passim*

Vaughan Mfg. Co. v. *Brikam Int'l, Inc.*,
814 F.2d 346 (7th Cir. 1987) 2

Statute

28 U.S.C. § 1292(b) 4

Page

Miscellaneous

Black's Law Dictionary 1548 (6th ed. 1990) 4, 9

1B James W. Moore et al., *Moore's Federal Practice* ¶ 0.416[2] (2d ed. 1995) 7-8

1B James W. Moore et al., *Moore's Federal Practice* ¶ 0.441[4] (2d ed. 1995) 8

Restatement (Second) of Judgments § 13 cmt. a (1982) 8

18 Charles A. Wright et al., *Federal Practice and Procedure* § 4432 (1981) 8

No. 95-551

IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

SEARS ROEBUCK & CO.,

Petitioner,

v.

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION and N.V. PHILIPS GLOEILAMPENFABRIEKEN,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF RESPONDENTS IN OPPOSITION

Respondents U.S. Philips Corporation, North American Philips Corporation (now known as Philips Electronics North America Corporation) and N.V. Philips Gloeilampenfabrieken (now known as Philips Electronics N.V.) (collectively "Philips") respectfully request that the petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this interlocutory appeal be denied.

STATEMENT OF THE CASE

Respondent disagrees with Petitioner's "Statement," to the extent material to disposition of the Petition, in the following particulars:

1. The question certified to and answered by the lower court in this interlocutory appeal was whether "under the law of the 7th Circuit, . . . Philips can be barred under collateral estoppel . . . where the final judgment of the [c]ourt was vacated predicated on a settlement." (Petitioner's Appendix ("Pet. App.") A, 11a.) The lower courts were not asked and did not decide the nebulous questions now posed by Petitioner such as "whether equitable or other considerations warrant" giving a vacated judgment preclusive effect (Petition ("Pet.") at i), or whether "it is appropriate and fair to impose an estoppel" in circumstances present here (Pet. at 11).

2. The trial of Philips' unfair competition claim against Petitioner, set to commence in the Northern District of Illinois on January 16, 1996, is not the "same" (Pet. at 3, 5), "similar" or "substantially identical" (Pet. at 4) to the claim asserted by Philips in Florida against Windmere Corporation ("Windmere") in 1984 in *U.S. Philips Corp. et al.* v. *Windmere Corp. et ano.*, No. 84-2508-Civ.-Marcus (S.D. Fla.) ("*Windmere*"). The claims against Petitioner not only involve different models of shavers marketed by a different defendant, but also rely on the very different unfair competition law of the Seventh Circuit compared with that applied in *Windmere*.[1] Furthermore, there is abundant

---

[1] *Compare Vaughan Mfg. Co.* v. *Brikam Int'l, Inc.*, 814 F.2d 346, 349 (7th Cir. 1987) ("[f]unctionality is a defense") *with* the special interrogatory in *Windmere* asking whether Philips *had proven* functionality as an element of its case.

evidence below of Petitioner's intent to copy Philips' products that was ruled inadmissible in *Windmere*. For example, Petitioner's business records speak of its "key long range strategy" to market shavers "identifiable" with Philips "so that the consumer thinks or feels he is getting the popular brand under [Petitioner's] name." The case against Petitioner is decidedly *not* the "same" (Pet. at 5) as the case against Windmere, and it is *not* "the relitigation of rejected claims" (Pet. at 9). Philips has not yet had its day in court on its claim against Petitioner.

3. It is not accurate that the Federal Circuit "heard no argument in opposition" to vacating the judgment in *Windmere* (Pet. at 7); that the court vacated the judgment "without further inquiry because all the named parties were in favor of vacatur" (Pet. at 5); or that vacatur was "unopposed" (Pet. at 8). In fact, Petitioner's supplier and indemnitor, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") moved to intervene in the Federal Circuit and presented various arguments against vacatur. Izumi, represented by the same counsel as Petitioner, previously told this Court in the appeal of the vacatur decision that the Federal Circuit had "addressed the merits of Izumi's opposition" to vacatur. (Respondents' Appendix, appended hereto ("App.") A, 1.) The fact that counsel now represents Petitioner rather than Izumi does not alter the fact, as previously represented, that vacatur was opposed, and that the Federal Circuit heard and considered Izumi's opposition.

The court in *Windmere* also required that Philips prove that the likelihood of confusion was caused by the nonfunctional aspects of Philips' design contrary to Seventh Circuit law. *See Schwinn Bicycle Co.* v. *Ross Bicycles, Inc.*, 870 F.2d 1176, 1183 n.14 (7th Cir. 1989).

4. Nothing supports Petitioner's characterization of the opinion below as "assuming that the vacatur of th[e] judgment [in *Windmere*] had been improper" in light of *U.S. Bancorp Mortgage Co.* v. *Bonner Mall Partnership*, __ U.S. __, 115 S. Ct. 386 (1994). (Pet. at 6.) In fact, the lower court specifically stated that "it is unnecessary to decide whether, as Philips suggests, there were indeed extraordinary circumstances that justified vacatur in this case" under *U.S. Bancorp*. (Pet. App. A, 11a.)

REASONS FOR DENYING THE WRIT

SUMMARY

The question presented by Petitioner goes far beyond the question certified to and answered by the court of appeals in this appeal under 28 U.S.C. § 1292(b). While Petitioner asks this Court to decide whether a vacated judgment should be given collateral effect because of "equitable or other considerations," or whether it is "appropriate and fair" to do so (Pet. at i, 11), the only issue certified below is whether under Seventh Circuit law a vacated judgment gives rise to collateral estoppel. Indeed, Petitioner's own phrasing of the issue it presents — "this Petition raises the question whether there is *any sound reason*" to apply collateral estoppel (Pet. at 3) (emphasis added) — demonstrates Petitioner's expansion of the issue below beyond all recognition. Certiorari should not be granted on an issue that goes far beyond the question addressed below.

The question that *was* presented below was properly answered. The authority is long-standing, abundant and unanimous that application of collateral estoppel requires a final judgment. Once the judgment in *Windmere* was vacated — meaning "[t]o annul; to set aside; to cancel or rescind," *Black's Law Dictionary* 1548 (6th ed. 1990) — it ceased to

exist, and there is neither support for nor sense to Petitioner's notion that a vacated judgment continues to have collateral estoppel effect.

Moreover, adopting Petitioner's suggestion would wreak havoc with the judicial system and the crucial policy of finality of judgments. *U.S. Bancorp* was decided twenty-three months *after* final judgment was entered in *Windmere*, and *U.S. Bancorp* should not be applied retroactively to a case concluded by entry of a final judgment. As this Court has ruled, applying a subsequent decision to a final judgment would "creat[e] elements of uncertainty and confusion and . . . undermin[e] the conclusive character of judgments." *Federated Dep't Stores, Inc.* v. *Moitie*, 452 U.S. 394, 398-99 (1981) (quoting *Reed* v. *Allen*, 286 U.S. 191, 201 (1932)).

Finally, while Petitioner admits that *U.S. Bancorp* allowed for the possibility of vacation of a judgment on settlement in "exceptional circumstances," Petitioner would deny application here of that portion of *U.S. Bancorp*. If, as Petitioner contends, *U.S. Bancorp* should be applied to *Windmere*, then Philips must be given the opportunity to show that vacation in *Windmere* was appropriate under *U.S. Bancorp*. Contrary to Petitioner's assumption, giving the vacated *Windmere* judgment collateral effect is *not* the necessary result of applying *U.S. Bancorp* to *Windmere*, and Petitioner has offered no suggestion of how the "exceptional circumstances" portion of the *U.S. Bancorp* decision could be applied to *Windmere*, which was finally decided three years ago.

I. PETITIONER'S QUESTION PRESENTED GOES FAR BEYOND THE ISSUE RAISED AND DECIDED BELOW

Certiorari will not be granted to review questions neither presented to nor decided by the court below. *Ellis* v. *Dixon*, 349 U.S. 458, 463-64 (1955); *United States* v. *Williams*, 504 U.S. 36, 41 (1992). The question raised by Petitioner — whether "equitable or other considerations" require that a vacated judgment be given preclusive effect (Pet. at i) — was neither presented to nor resolved by the lower courts.

The certified question in this interlocutory appeal asked only whether "under the law of the 7th Circuit, . . . Philips can be barred under collateral estoppel" by a judgment vacated pursuant to settlement (Pet. App. A, 11a), and both lower courts recognized that the issue was not as broad as Petitioner now contends (*see* Pet. App. B, 21a-22a; Pet. App. A, 11a-12a). Neither court addressed the "policy" considerations Petitioner invokes,[2] nor did the court of appeals discuss or cite the Ninth Circuit case, *Bates* v. *Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert. denied*, 503 U.S. 1005 (1992), which Petitioner contends creates a conflict between the Federal and Ninth Circuits.

The Court of Appeals answered the certified question by deciding only that (i) under settled law *U.S. Bancorp* could not be applied retroactively to affect a final judgment entered two years before *U.S. Bancorp* was decided (Pet. App. A, 11a), and (ii) that a vacated judgment would not be given preclusive effect under Seventh Circuit law (Pet. App. A, 11a-12a).

---

[2] *U.S. Bancorp* was decided after the district court's decision but before the decision of the court of appeals.

The sole question presented by Petitioner is far broader than the certified question answered below, and the grounds asserted in support of the Petition were not addressed by the court of appeals. It is perhaps for these reasons that the Petition neither quotes nor summarizes the question certified to the court below. Certiorari should not be granted in this interlocutory appeal to review a different question.

II. COURTS HAVE UNIFORMLY RULED THAT COLLATERAL ESTOPPEL REQUIRES A FINAL JUDGMENT AND THIS COURT HAS RULED THAT A VACATED JUDGMENT HAS NO PRECLUSIVE EFFECT

In arguing that a vacated judgment has collateral estoppel effect, Petitioner would not only rewrite the law of collateral estoppel, but would also disavow the contrary representation Petitioner made to this Court two years ago. In an amicus brief, Petitioner urged that the *Windmere* judgment should not have been vacated because vacation allows the parties "and others similarly situated [to] relitigate the issues decided against them," *i.e.*, that a vacated judgment would *not* have collateral estoppel effect (App. B, 4). Having failed in that appeal, Petitioner now reverses course seeking to achieve the same result — application of collateral estoppel — by making a contrary representation here.

There is no authority for Petitioner's latest position that the vacated judgment prevents "relitigat[ion]," and the court of appeals properly held in accord with uniform authority that a valid final judgment is a necessary element of collateral estoppel. *See* 1B James W. Moore et al., *Moore's Federal Practice* ¶ 0.416[2] (2d ed. 1995) ("A judgment that has been vacated, reversed, or set aside on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral

estoppel.") (footnote omitted); *Restatement (Second) of Judgments* § 13 cmt. a (1982) (to have preclusive effect a judgment must be "a firm and stable one, the 'last word' of the rendering court — a 'final' judgment"); 18 Charles A. Wright et al., *Federal Practice and Procedure* § 4432 (1981) ("To qualify for preclusion, a judgment must be valid, final, and on the merits.").

This Court has repeatedly ruled that collateral estoppel — "an aspect of the doctrine of res judicata," Moore et al., *supra*, ¶ 0.441[4] — requires a final judgment. *Reed* v. *Proprietors of Locks & Canals*, 49 U.S. 274, 291 (1850) ("There was no judgment of the court upon the verdict, which alone could give it the force or effect of *res judicata*."); *Aurora City* v. *West*, 74 U.S. 82, 93 (1868) ("Unless a final judgment or decree is rendered in a suit the proceedings in the same are never regarded as a bar to a subsequent action."); *G&C Merriam Co.* v. *Saalfield & Ogilvie*, 241 U.S. 22, 28 (1916) ("[I]t is familiar law that only a final judgment is *res judicata* . . . ."); *Nevada* v. *United States*, 463 U.S. 110, 129-30 (1983) ("[W]hen a final judgment has been entered on the merits of a case, '[i]t is a finality as to the claim or demand in controversy . . . .'") (quoting *Cromwell* v. *County of Sac*, 94 U.S. 351, 352 (1877)).

Most significantly, in *United States* v. *Munsingwear, Inc.*, 340 U.S. 36, 40 (1950), this Court specifically recognized that vacation of a judgment "clears the path for future relitigation of the issues between the parties." Although the Court in *U.S. Bancorp* did not extend the *rationale* of *Munsingwear* — that judgments on appeals which become moot should be vacated — to cases which become moot due to settlement, the court in *U.S. Bancorp* took no issue with the *effect* of vacation of the judgment.

In fact, the result in *U.S. Bancorp* was based primarily on the fact that a vacated judgment loses any collateral effect. *U.S. Bancorp*, __ U.S. at __, 115 S. Ct. at 392. Thus, in purportedly seeking to give "practical significance" to *U.S. Bancorp* (Pet. at 7), Petitioner ignores the Court's basic rationale that gave rise to the result. If, as Petitioner contends, a judgment vacated pursuant to settlement continued to retain vitality, Philips respectfully suggests that the issue decided in *U.S. Bancorp* would not have arisen.[3]

---

[3] Petitioner's suggestion that a vacated judgment be given continuing effect is not only contrary to unanimous precedent, but is also nonsensical. An order to "vacate" a judgment is to "annul . . . cancel or rescind" it. *Black's Law Dictionary* 1548 (6th ed. 1990). It is hard to understand Petitioner's argument that something which no longer exists should have continuing preclusive effect. Moreover, Petitioner is faced with making such an argument due to its own inaction. While Izumi sought to intervene in *Windmere* to oppose vacatur in 1992, Petitioner chose not to. Had Petitioner cared about whether the *Windmere* judgment was vacated, it could have presented its view to the court of appeals when the issue was presented. Instead, Petitioner has decided to attack the *Windmere* decision in this collateral proceeding only after *Windmere* finally was decided.

III. APPLYING *U.S. BANCORP* RETROACTIVELY TO ALTER THE RESULT OF *WINDMERE* WOULD DESTROY THE FINALITY OF JUDGMENTS

Philips does not dispute that *U.S. Bancorp* should be enforced "in *subsequent* litigation" (Pet. at 7 (emphasis added)); the issue Petitioner actually raises, however, is whether *U.S. Bancorp* should be applied in *prior* litigation subject to a final judgment. The distinction Petitioner seeks to draw — between reinstating the *Windmere* judgment and giving the vacated judgment collateral effect (Pet. at 8-9, n.10) — is both meaningless and futile. Once vacated, the judgment ceased to exist, and its effects can only be revived by revisiting the final outcome of *Windmere*.[4]

Well-settled law establishes that a final judgment cannot be revisited simply because of a subsequent change in the law. *Federated Dep't Stores, Inc.* v. *Moitie*, 452 U.S. 394, 398-99 (1981) (it would "creat[e] elements of uncertainty and

---

[4] As Petitioner admits (albeit by cryptic reference), it recently filed an independent action under Fed. R. Civ. P. 60(b) seeking to reinstate the *Windmere* judgment so that the judgment can be used collaterally in the case at bar. *Kabushiki Kaisha Izumi Seiki Seisakusho et ano.* v. *Windmere Corp. et al.*, No. 95-1147- Civ.-Marcus (S.D. Fla.) (*see* Pet. at 8-9, n.10). Obviously, if Petitioner were successful in its 60(b) action, the issue Petitioner presses here would automatically become moot. Thus, should certiorari be granted the case may become moot at any stage because of Petitioner's recent suit. In its 60(b) case, Petitioner once again argues — contrary to its claim here — that a vacated judgment has no collateral estoppel effect.

confusion and . . . undermin[e] the conclusive character of judgments" if final judgments were affected by subsequent change in the law) (quoting *Reed* v. *Allen*, 286 U.S. 191, 201 (1932)); *Sunal* v. *Large*, 332 U.S. 174, 181-82 (1947) (same); *Harper* v. *Virginia Dep't of Taxation*, __ U.S. __, 113 S. Ct. 2510, 2517 (1993) (rule applied to parties before the Court "must be given full retroactive effect *in all cases still open*") (emphasis added).

The Court's concern over "uncertainty and confusion" if a final judgment were affected by a subsequent change in the law is starkly implicated by Petitioner's suggestion that the *Windmere* final judgment should be affected by *U.S. Bancorp*. There have been more than one hundred federal and state decisions in which judgments have been vacated or reversed upon settlement.[5] Were Petitioner to prevail, *each* of these vacated judgments would, in effect, be reinstated at least for purposes of collateral estoppel. The consequences, however unpredictable, would at least be disruptive to the hundreds of litigants who have ordered their affairs based on the sound and settled legal principle that a vacated judgment can have no collateral estoppel effect.

Moreover, disregarding hundreds of years of precedent and allowing a final judgment to be affected by a subsequent decision would give way to exceptions that could consume the rule. Petitioner offers no principled reason why only a judgment vacated due to settlement and not other vacated judgments should continue to have collateral effect. Worthy principles other than those cited in *U.S. Bancorp* would constitute further challenges to the finality of judgments rule. For these reasons, the vacated *Windmere* judgment should not be revived and given collateral estoppel effect.

---

[5] Citations to some of these cases are set forth in Appendix C, appended hereto.

IV. NO DETERMINATION CAN BE MADE ON THIS RECORD THAT THE VACATUR IN *WINDMERE* CONFLICTS WITH *U.S. BANCORP*

The basic rationale of Petitioner is that the *Windmere* judgment should be given preclusive effect to give *U.S. Bancorp* "practical significance." (Pet. at 7.) To the contrary, on the record below no determination can be made that applying *U.S. Bancorp* to *Windmere* would have any such result.

U.S. Bancorp specifically recognized that judgments may be vacated on settlement in "exceptional circumstances." *U.S. Bancorp*, __ U.S. at __, 115 S. Ct. at 393 ("This is not to say that vacatur can never be granted when mootness is produced [by settlement]. . . . As we have described, the determination is an equitable one . . . ."). Thus, if, as Petitioner requests, *U.S. Bancorp* were applied retroactively to *Windmere*, the effect of doing so could only be ascertained after full hearings to determine whether *Windmere* fit within "exceptional circumstances."

Petitioner does not suggest how the exception recognized in *U.S. Bancorp* could be applied to the now final *Windmere* proceedings. Should hearings be held in the case at bar — thereby having the *Sears* district court in 1996 consider whether vacatur by the Federal Circuit in 1992 in *Windmere* was appropriate under *U.S. Bancorp* which was decided in 1994 — or should *Windmere*, ended by a final judgment in 1992, somehow be resurrected to hold hearings in that case? Petitioner provides no answer, and its inability to suggest any reasonable procedure to apply to *Windmere all* of *U.S. Bancorp*, including its exception, points out the

deficiencies in retroactive application of a new decision to cases finally adjudicated.[6]

V. THE DECISION BELOW DOES NOT CONFLICT WITH *BATES*

As shown above at pages 6-7, *supra*, the issue of whether there is a conflict between the decision below and Ninth Circuit law — the second reason urged by Petitioner to grant the writ — was never considered by the court below, and it would be inappropriate to grant certiorari in this case to review the purported conflict.

Moreover, there is no conflict. The decision below — that a judgment vacated pursuant to settlement has no preclusive effect — does not conflict with *Bates* v. *Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert. denied*, 503 U.S. 1005 (1992). The court of appeals in *Bates* examined the effect of a judgment vacated *in violation* of Ninth Circuit

---

[6] Philips would demonstrate that *Windmere* presented "exceptional circumstances" justifying vacatur on settlement by demonstrating, among other things, that: (1) Philips gave up its right to appeal based on clear Federal Circuit precedent strongly indicating that vacatur would be granted; (2) there were serious errors below (recognized by the district court itself) and a deficiency in proof making the judgments themselves suspect (indeed the prevailing party, Windmere, referred to the judgments as "uncertain"); (3) Petitioner's indemnitor, Izumi, although well aware of the terms of the Windmere-Philips settlement, did not seek to intervene to oppose vacatur until *after* Philips had given up its right to appeal; and (4) different law and facts govern the *Sears* case making the application of collateral estoppel erroneous in any event.

law. As the court in *Bates* specifically stated, when a judgment is lawfully vacated, "the judgment will lose any preclusive effect and the party who sought vacatur can safely forego an appeal." *Id.* at 650.

There is no dispute that when the *Windmere* judgment was vacated it was done in accordance with Federal Circuit law. *See Federal Data Corp.* v. *SMS Data Prods. Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987); *Smith Int'l, Inc.* v. *Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988). Consequently the decision below and that in *Bates* are in full accord: judgments lawfully vacated pursuant to settlement have no preclusive effect. *Bates*, 944 F.2d at 650; Pet. App. A, 11a-13a.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

Garrard R. Beeney
125 Broad Street
New York, New York 10004
(212) 558-4000

Counsel for Respondents

Jay L. Pomerantz
Michael E. Johnson
SULLIVAN & CROMWELL
Of Counsel

November 3, 1995

APPENDIX A

No. 92-1123

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Petitioner,

v.

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION, N.V. PHILIPS GLOEILAMPENFABRIEKEN,
and
WINDMERE CORPORATION,
Respondents.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITIONER'S BRIEF ON THE MERITS

. . . .

Having held that Izumi did not have standing to oppose the Philips/Windmere motion to vacate either as a party to the original district court action, as an affected third party, or as an intervenor (Pet. A2-A5), the Federal Circuit nevertheless addressed the merits of Izumi's opposition.

However, even though vacatur created the prospect of duplicating in Illinois the lengthy and complex trial conducted in Florida, the Federal Circuit granted the motion to vacate (Pet. A5-A6).

. . . .

Respectfully submitted,

HERBERT H. MINTZ
FINNEGAN, HENDERSON,
FARABOW, GARRETT
& DUNNER
1300 I Street, N.W.
Washington, D.C. 20005
(202) 408-4000

Counsel for Petitioner
Izumi Seimitsu Kogyo
Kabushiki Kaisha

Of Counsel:
ROBERT D. LITOWITZ
JEAN BURKE FORDIS
DAVID S. FORMAN
FINNEGAN, HENDERSON,
FARABOW, GARRETT
& DUNNER
1300 I Street, N.W.
Washington, D.C. 20005
(202) 408-4000

WILLIAM L. ANDROLIA
KODA & ANDROLIA
1880 Century Park East
Suite 519
Los Angeles, CA 90067
(310) 277-1391

April 22, 1993

APPENDIX B

No. 92-1123

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Petitioner,

v.

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION, N.V. PHILIPS GLOEILAMPENFABRIEKEN,
and
WINDMERE CORPORATION,
Respondents.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF AMICUS CURIAE SEARS, ROEBUCK & CO. ON THE MERITS IN SUPPORT OF PETITIONER

. . . .

When courts allow dissatisfied litigants to vacate judgments simply by settling cases after appealing an adverse

ruling, litigants can effectively undermine the reliability of the developed law. Instead of undertaking the burden and risk of seeking to reverse or modify adverse decisions on appeal, litigants such as Philips can pay to have such precedents removed from the books so that they and others similarly situated can relitigate the issues decided against them. Neither the public interest nor the interest of justice is served when the development of the law is disturbed in this manner.

. . . .

Respectfully submitted,

ROGER D. GREER
KARA F. CENAR
WELSH AND KATZ, LTD.
Suite 1625
135 South LaSalle Street
Chicago, Illinois 60603
Counsel for Amicus Curiae Sears, Roebuck & Co.

Of Counsel:
LYNN HUDSON
SEARS, ROEBUCK & CO.
3333 Beverly Road
Hoffman Estates,
Illinois 60179

April 22, 1993

APPENDIX C

I. Federal Cases

See, e.g., *Davis* v. *City of San Francisco*, 984 F.2d 345 (9th Cir. 1993); *Rodriguez* v. *MEBA Pension Trust*, 978 F.2d 1334 (4th Cir. 1992); *Purcella* v. *United States*, 968 F.2d 10 (10th Cir. 1992); *Studio 1712, Inc.* v. *Etna Prods. Co.*, 968 F.2d 10 (10th Cir. 1992); *Baxter Healthcare Corp.* v. *Healthdyne, Inc.*, 956 F.2d 226, 227 (11th Cir. 1992); *Israel Discount Bank Ltd.* v. *Entin*, 951 F.2d 311, 313 n.3 (11th Cir. 1992); *Laber* v. *Merit Sys. Protection Bd.*, 982 F.2d 519, 520 (Fed. Cir. 1992); *Oracare DPO, Inc.* v. *Merin*, 972 F.2d 519, 523 (3d Cir. 1992); *Resolution Trust Corp.* v. *Tetco, Inc.*, No. 91-5612, 1992 WL 437650, at *1 (5th Cir. Apr. 22, 1992); *Trudo* v. *County of Pueblo*, No. 91-1253, 1992 U.S. App. LEXIS 19164, at *1 (10th Cir. Aug. 11, 1992); *Kimbrough* v. *Bowman Transp., Inc.*, 929 F.2d 599 (11th Cir. 1991); *Kliebert* v. *Upjohn Co.*, 947 F.2d 736, 737 (5th Cir. 1991); *Howell* v. *Evans*, 931 F.2d 711, 712 (11th Cir. 1991); *In re Shelby Motel Group, Inc.*, 925 F.2d 1583, 1584 (11th Cir. 1991); *Mur-Maid Enters., Inc.* v. *Townsend*, 951 F.2d 297 (11th Cir. 1991); *Wiley* v. *Western Airlines*, 930 F.2d 921 (9th Cir. 1991) (text in Westlaw); *Showtime/The Movie Channel, Inc.* v. *Covered Bridge Condominium Ass'n*, 895 F.2d 711, 713-14 (11th Cir. 1990); *Reliance Ins. Co.* v. *Kent Corp.*, 909 F.2d 424, 425 (11th Cir. 1990); *Long Island Lighting Co.* v. *Cuomo*, 888 F.2d 230, 233-34 (2d Cir. 1989); *Dunn* v. *Blue Ridge Tel. Co.*, 888 F.2d 731, 732 (11th Cir. 1989); *United States* v. *Queen Mountain Mining, Inc.*, 865 F.2d 1269 (6th Cir. 1989) (text in Westlaw); *Smith Int'l, Inc.* v. *Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988); *Federal Data Corp.* v. *SMS Data Prods. Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987); *Tosco Corp.* v. *Hodel*, 826 F.2d 948, 948 (10th Cir. 1987); *Société Nationale Industrielle Aerospatiale* v. *United States*

Dist. Ct. for the Dist. of Alaska, 823 F.2d 382, 383 (9th Cir. 1987); *Grochal* v. *Aeration Processes, Inc.*, 812 F.2d 745 (D.C. Cir. 1987); *Kennedy* v. *Block*, 784 F.2d 1220, 1225 (4th Cir. 1986); *Nestle Co.* v. *Chester's Mkt., Inc.*, 756 F.2d 280, 284 (2d Cir. 1985); *Hendrickson* v. *Secretary of Health & Human Servs.*, 774 F.2d 1355 (8th Cir. 1985); *Douglas* v. *Donovan*, 704 F.2d 1276, 1280 (D.C. Cir. 1983); *Delta Air Lines* v. *McCoy Restaurants, Inc.*, 708 F.2d 582, 584 (11th Cir. 1983); *Aviation Enters., Inc.* v. *Orr*, 716 F.2d 1403, 1408 (D.C. Cir. 1983); *Amalgamated Clothing & Textile Workers Union, AFL-CIO* v. *J.P. Stevens & Co.*, 638 F.2d 7, 8 (2d Cir. 1980); *Inland Corp.* v. *Buckeye Tank Terminals, Inc.*, No. 78-3062/3, slip op. at 1 (6th Cir. May 15, 1980); *Ellis* v. *Flying Tiger Corp.*, 504 F.2d 1004, 1006 (7th Cir. 1972); *United States* v. *Hartec Enters., Inc.*, 130 B.R. 929 (W.D. Tex. 1991); *Tyson* v. *Levinson*, 927 F.2d 1258 (D.C. Cir. 1991) (text in Westlaw); *Trailer Marine Transp. Corp.* v. *Philadelphia Export Consolidations, Inc.*, No. 88-4634, 1991 U.S. Dist. LEXIS 5318, at *1 (D.N.J. Mar. 27, 1991); *Bonnett* v. *United States*, No. 91-352-CIV-T-10A, 1991 U.S. Dist. LEXIS 16637, at *1 (M.D. Fla. Oct. 29, 1991); *DeLorean* v. *Cork Gully*, 118 B.R. 932, 938 (E.D. Mich. 1990); *In re Fryar*, 113 B.R. 317, 318 (W.D. Tex. 1989); *Schering Corp.* v. *Schering Aktiengesellschaft*, 709 F. Supp. 529, 530 (D.N.J. 1988); *Streiff Jewelry Co.* v. *United Parcel Serv.*, 679 F. Supp. 7 (S.D. Fla. 1988); *Jacobson* v. *John Hancock Mut. Life Ins. Co.*, 662 F. Supp. 1103, 1113 (D. Conn. 1987); *Lowery* v. *WMC-TV*, 661 F. Supp. 65, 65-66 (W.D. Tenn. 1987); *Welsch* v. *Gardebring*, 667 F. Supp. 1284, 1298 (D. Minn. 1987); *Hi-Hat Restaurant, Inc.* v. *INS*, 584 F. Supp. 1272 (D. Or. 1984); *Candelaria Indus., Inc.* v. *Occidental Petroleum Corp.*, 662 F. Supp. 1002, 1011 (D. Nev. 1984); *Universal City Studios, Inc.* v. *Nintendo Co.*, 578 F. Supp. 911, 916 (S.D.N.Y. 1983), *aff'd*, 746 F.2d 112 (2d Cir. 1984);

Harrell v. *C.C. Mayes Co.*, 99 Lab. Cas. (CCH) ¶ 10,725, at 20,504-05 (E.D. Tenn. 1983); *D'Antonio* v. *United States*, 635 F. Supp. 391, 392 (S.D. Ohio 1983); *Angstrohm Precision, Inc.* v. *Vishay Intertechnology, Inc.*, 567 F. Supp. 537, 539 (E.D.N.Y. 1982); *United States* v. *AT&T*, 552 F. Supp. 131, 138 n.17, 226 (D.D.C. 1982), *aff'd sub nom.*, *Maryland* v. *United States*, 460 U.S. 1001 (1983); *Township of River Vale* v. *Harris*, 444 F. Supp. 90, 91 (D.D.C. 1978); *Breckenridge Hotels Corp.* v. *Real Estate Research Corp.*, 456 F. Supp. 385 (E.D. Mo. 1978); *Doe* v. *Swinson*, No. 76-91-A, slip op. at 1 (E.D. Va. Dec. 22, 1976); *St. Paul Fire & Marine Ins. Co.* v. *Hundley*, 354 F. Supp. 655, 657-58 (E.D. Ark. 1973).

II. State Cases

See, e.g., *City of Valdez* v. *Gavora, Inc.*, 692 P.2d 959, 960-61 (Alaska 1984); *Southwest Sav. Loan Ass'n* v. *Mason*, 751 P.2d 526, 527 (Ariz. 1988); *Sanson* v. *Gonzales*, 688 P.2d 641, 642 (Ariz. 1984); *Food for Health Co.* v. *3839 Joint Venture*, 628 P.2d 986, 989 (Ariz. Ct. App. 1981); *Neary* v. *Regents of the Univ. of Cal.*, 834 P.2d 119, 126 (Cal. 1992); *Fowler* v. *Associated Oil Co.*, 79 P.2d 728 (Cal. 1938); *Stonewall Ins. Co.* v. *City of Palos Verdes Estates*, 9 Cal. Rptr. 2d 663, 666, 681 (Cal. Ct. App. 1992); *City of Laguna Beach* v. *Mead Reins. Corp.*, 276 Cal. Rptr. 438, 441 (Cal. Ct. App. 1990); *Cabot* v. *Colorado Charter Lines, Inc.*, 776 P.2d 1151, 1151 (Colo. Ct. App. 1989); *Sobocinski* v. *Freedom of Info. Comm'n*, 566 A.2d 703, 708-09 (Conn. 1989); *Lee* v. *A.C. & S., Inc.*, 538 A.2d 1113 (Del. 1988) (text in Westlaw); *In re Miller's Estate*, 197 So. 791 (Fla. 1940); *Burgwin* v. *Stewart*, 182 So. 297 (Fla. 1938); *State ex rel. Meredith* v. *Cone*, 177 So. 545 (Fla. 1937); *Adams* v. *Galloway*, 155 So. 96 (Fla. 1934); *Robinson* v. *Croker*, 158 So. 123, 124 (Fla. 1934); *Mortgage Corp. of Am.* v. *Inland Constr. Co.*, 463 So. 2d 1196, 1196 (Fla. Dist. Ct. App.

1985); *Rothenberg* v. *Connecticut Mut. Life Ins. Co.*, 161 So. 2d 875, 877 (Fla. Dist. Ct. App. 1964); *Schlitz* v. *Schlitz*, 138 So. 2d 806, 806-07 (Fla. Dist. Ct. App. 1962); *L.P. Gunson & Co.* v. *Merritt*, 100 So. 2d 191, 192 (Fla. Dist. Ct. App. 1958); *McKenzie* v. *Chastain*, 184 S.E. 276, 277 (Ga. 1936); *Hales* v. *Worthy*, 43 Ga. 178 (1871); *Dougherty County Sch. Sys.* v. *Grossman*, 149 S.E.2d 920 (Ga. Ct. App. 1966); *Barnett* v. *Moss*, 106 S.E.2d 60 (Ga. Ct. App. 1958); *Padgett* v. *Padgett*, 13 S.E.2d 40 (Ga. Ct. App. 1941); *E. Frederics, Inc.* v. *Felton Beauty Supply Co.*, 9 S.E.2d 198 (Ga. Ct. App. 1940); *Henry* v. *St. John's Hosp.*, 563 N.E.2d 410, 412 (Ill. 1990), *cert. denied*, 499 U.S. 976 (1991); *Jessee* v. *Amoco Oil Co.*, 594 N.E.2d 1210, 1211 (Ill. App. Ct. 1992); *Burris* v. *John Blue Co.*, 358 N.E.2d 724, 725-26 (Ill. App. Ct. 1976); *Nahigian Bros., Inc.* v. *Rug Serv., Inc.*, 12 N.E.2d 42 (Ill. App. Ct. 1937); *GTE North Inc.* v. *First State Ins. Co.*, No. 88 C 4376, 1990 U.S. Dist. LEXIS 15413, at *6-*7 (N.D. Ill. Oct. 25, 1990); *Thompson* v. *Stephenson*, 332 N.W.2d 341, 342 (Iowa 1983); *In re Estate of Williams*, 216 N.W.2d 568, 569-70, 573 (Iowa 1974); *Board of Educ.* v. *Muncy*, 239 S.W.2d 471, 473-74 (Ky. 1951); *St. Charles Parish Sch. Bd.* v. *GAF Corp.*, 512 So. 2d 1165, 1173 (La. 1987); *Preston Oil Co.* v. *Transcontinental Gas Pipe Line Corp.*, 594 So. 2d 908, 909-10 (La. Ct. App. 1991); *Bolin* v. *Hartford Accident & Indem. Co.*, 198 So. 2d 489 (La. Ct. App. 1967); *Callihan* v. *Monsour*, 34 So. 2d 521 (La. Ct. App. 1948); *Rogge* v. *Cafiero*, 134 So. 909, 910 (La. Ct. App. 1931); *Area Dev. Corp.* v. *Free State Plaza, Inc.*, 254 A.2d 355, 356-57 (Md. 1969); *Ladner* v. *Ladner*, 97 So. 2d 238, 239 (Miss. 1957); *Ogle* v. *Guardsman Ins. Co.*, 701 S.W.2d 469, 470-71 (Mo. Ct. App. 1985); *Koone* v. *Montgomery*, 114 S.W.2d 713 (Mo. Ct. App. 1938); *Civil Serv. Bar Ass'n* v. *City of New York*, 474 N.E.2d 587, 589 (N.Y. 1984); *Ruben* v. *American & Foreign Ins. Co.*, 592 N.Y.S.2d 167, 171 (N.Y. App.

Div. 1992); *Two Lincoln Square Assocs.* v. *New York City Conciliation & Appeals Bd.*, 427 N.Y.S.2d 424, 424 (N.Y. App. Div. 1980); *Stokes-Grimes Grocery Co.* v. *Hill*, 97 S.E. 468 (N.C. 1918); *In re Garner's Estate*, 148 P.2d 784 (Okla. 1944); *Ray* v. *Phillips Petroleum Co.*, 148 P.2d 784 (Okla. 1944); *Bigpond* v. *Mutaloke*, 105 P.2d 408, 410 (Okla. 1940); *Martin* v. *Mutaloke*, 105 P.2d 413, 415 (Okla. 1940); *Smith* v. *Plains Petroleum Corp.*, 25 P.2d 323, 325-26 (Okla. 1933); *Banister Continental Corp.* v. *Northwest Pipeline Corp.*, 724 P.2d 822 (Or. 1986); *Morgan* v. *Stimson Lumber Co.*, 618 P.2d 970, 973 (Or. Ct. App. 1980); *General Motors Acceptance Corp.* v. *Carter*, 361 S.E.2d 620 (S.C. 1987); *Commonwealth Lloyd's Ins. Co.* v. *Thomas*, 843 S.W.2d 486, 487 (Tex. 1993); *Public Citizen* v. *Third Court of Appeals*, 846 S.W.2d 284, 285 (Tex. 1993) (Doggett, J., concurring); *Harbison-Fisher Mfg. Co.* v. *Mohawk Data Sciences Corp.*, 840 S.W.2d 383, 383-84 (Tex. 1992); *Kidder, Peabody & Co.* v. *Lutheran Bhd.*, 840 S.W.2d 384 (Tex. 1992); *Raborn* v. *Davis*, 795 S.W.2d 716, 717 (Tex. 1990); *United Servs. Auto. Ass'n* v. *Lederle*, 400 S.W.2d 749 (Tex. 1966); *Swanson Broadcasting, Inc.* v. *Clear Channel Communications, Inc.*, 762 S.W.2d 360, 361 (Tex. Ct. App. 1988); *Butler* v. *State*, 481 S.W.2d 907 (Tex. Crim. App. 1972); *Salazar* v. *State*, 486 S.W.2d 323, 324 (Tex. Crim. App. 1972); *Duke* v. *Sears, Roebuck & Co.*, 446 S.W.2d 886, 887 (Tex. Civ. App. 1969); *Castro* v. *Highlands Ins. Co.*, 401 S.W.2d 689 (Tex. Civ. App. 1966); *Eichelberger* v. *Orr*, 392 S.W.2d 474, 474-75 (Tex. Civ. App. 1965); *St. Louis, B. & M. Ry.* v. *Texas Mexican Ry.*, 212 S.W.2d 502, 503 (Tex. Civ. App. 1948); *Polunsky* v. *Polunsky*, 152 S.W.2d 932, 933 (Tex. Civ. App. 1941); *Dilbeck* v. *Estep*, 145 S.W.2d 218, 219 (Tex Civ. App. 1940); *Superior Oil Co.* v. *Blain*, 141 S.W.2d 428, 429 (Tex. Civ. App. 1940); *United Employers Casualty Co.* v. *Teer*, 142 S.W.2d 933, 934 (Tex. Civ. App. 1940); *Maryland Casualty Co.* v.

Brakebill, 130 S.W.2d 306 (Tex. Civ. App. 1939); *Southern Underwriters* v. *Evans*, 112 S.W.2d 542 (Tex. Civ. App. 1938); *Cullen* v. *Ellis County Levee Improvement Dist.*, 77 S.W.2d 310, 311-12 (Tex. Civ. App. 1934); *San Jacinto Rice Co.* v. *Hamman*, 247 S.W. 500, 500-01 (Tex. Com. App. 1923).

Supreme Court, U.S.
FILED
NOV 13 1995
OFFICE OF THE CLERK

No. 95-551

IN THE
Supreme Court of the United States
OCTOBER TERM, 1995

SEARS ROEBUCK & CO.,
Petitioner,
v.
U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

REPLY BRIEF FOR PETITIONER

Of Counsel:
JAMES VANR. SPRINGER
DICKSTEIN, SHAPIRO
& MORIN, L.L.P.
WILLIAM L. ANDROLIA
KODA & ANDROLIA
1880 Century Park East
Los Angeles, California 90067
(310) 277-1391

GARY M. HOFFMAN
(Counsel of Record)
CHARLES W. SABER
GABRIELLE S. ROTH
DICKSTEIN, SHAPIRO
& MORIN, L.L.P.
2101 L Street, N.W.
Washington, D.C. 20037
(202) 785-9700
Attorneys for Petitioner
Sears Roebuck & Co.

November 13, 1995

WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

BEST AVAILABLE COPY

5 pp

TABLE OF AUTHORITIES

Cases: Page

Bates v. Union Oil Co., 944 F.2d 647 (9th Cir. 1991), *cert. denied*, 503 U.S. 1005 (1992) 2

Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971) 3

U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership, 115 S. Ct. 386 (1994) 2, 3

U.S. Philips Corp. v. Windmere Corp., 971 F.2d 728 (Fed. Cir. 1992) 3

IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

No. 95-551

SEARS ROEBUCK & CO.,

Petitioner,

v.

U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

REPLY BRIEF FOR PETITIONER

Philips' Brief in Opposition is largely unresponsive to the Petition's showing that the single clear-cut question presented deserves review on certiorari. While we vigorously deny Philips' quibbles about the Petition's statement of the case and Philips' irrelevant characterizations of statements that various parties have made in different forums, no point would be served by a detailed refutation here. Nor is this the place for argument on the merits of the question, which will properly await the grant of certiorari. It should be noted, however, that Philips' effort to differentiate its trade dress claim in this case from the claim that was rejected in Florida (Opp. at 2-3) is belied by the fact that the District Court below originally granted summary judgment against Philips based on col-

lateral estoppel, and reinstated the claim only because of the vacatur of the Florida judgment whose effect is the subject of the question presented by the Petition.

Philips' contentions regarding certworthiness need only a brief response.

1. The question presented by the Petition is precisely the question raised and briefed below. The parties vigorously disputed whether the vacated trade dress judgment against Philips should retain its collateral estoppel effect under all the circumstances of this case. The arguments in support of Petitioner's position—including the impropriety of the vacatur in light of *U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership*, 115 S. Ct. 386 (1994),* and the impact of *Bates v. Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert. denied*, 503 U.S. 1005 (1992)—were briefed and debated extensively in the court below.

2. While Philips claims that "[c]ourts have uniformly ruled that collateral estoppel requires a final judgment" (Opp. at 7, heading II), not a single authority upon which it relies denied collateral estoppel effect to a final judgment subsequently vacated pursuant to a consensual settlement. In fact, the only precedent in the Opposition which addresses this issue is *Bates*, where the Ninth Circuit held that a judgment, improperly vacated upon settlement can and does retain its collateral estoppel effect. The court below held the precise opposite—that a later court can never give collateral estoppel effect to a vacated judgment—even if the vacatur was improper. That is the conflict which this Court should resolve.

3. Philips' argument that the result sought by Petitioner "would destroy the finality of judgments" (Opp. at 10, heading III), is based on the false premise that Petitioner is seeking to apply *U.S. Bancorp* retroactively to

---

* This Court's *sua sponte* decision to review the propriety of vacatur upon settlement was brought to the Court of Appeals' attention by letter after briefing was completed. Philips responded and the import of *U.S. Bancorp* was discussed at oral argument.

U.S. Philips Corp. v. Windmere Corp., 971 F.2d 728 (Fed. Cir. 1992). If Petitioner is successful, the vacatur in *Windmere* will remain in place and the finality of that case will not be altered. The only impact will be to preclude Philips from asserting prospectively the trade dress rights which were determined to be invalid in Florida. For the same reasons, Philips' listing of "more than one hundred federal and state decisions in which judgments have been vacated or reversed upon settlement" (Opp. at 11) is of no moment. The results in each of those cases (as well as any other concluded case) would remain intact. If anything, those cases exemplify the importance of the question presented by the Petition by showing the likelihood of other situations where defeated plaintiffs would *prospectively* assert intellectual property and other rights previously found to be invalid after a full and fair trial. Allowing Philips and others to do so would not only be inconsistent with *U.S. Bancorp*, but would also disserve the collateral estoppel principles of *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971).

For these reasons and those stated in the Petition, certiorari should be granted.

Respectfully submitted,

GARY M. HOFFMAN
(Counsel of Record)
CHARLES W. SABER
GABRIELLE S. ROTH
DICKSTEIN, SHAPIRO
& MORIN, L.L.P.
2101 L Street, N.W.
Washington, D.C. 20037
(202) 785-9700

Attorneys for Petitioner
Sears Roebuck & Co.

Of Counsel:

JAMES VANR. SPRINGER
DICKSTEIN, SHAPIRO
& MORIN, L.L.P.

WILLIAM L. ANDROLIA
KODA & ANDROLIA
1880 Century Park East
Los Angeles, California 90067
(310) 277-1391

November 13, 1995